FINANCIAL TIMES

World Business Newspaper http://www.FT.com

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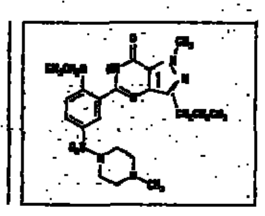

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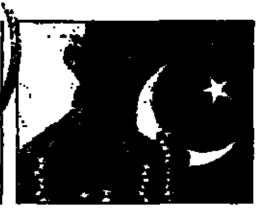

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WORLD NEWS

Basques suspected in Pamplona killing and in plot against King Juan Carlos

A councillor in Spain's northern city of Pamplona was shot dead in his car, the fifth local official to die at the hands of suspected Basque separatist in a year. Police also seized documents said to include plans for an attack on King Juan Carlos at the opening of an aquarium this summer. **Page 16**

Indonesian unrest hits markets
Indonesia's financial markets and currency fell as rioters looted and torched shops in Medan, sparking fears that the violence might spread across the nation. The Jakarta composite stock index closed 4.7 per cent lower at 414.6 points, a 16-month low. **World stocks, Page 40; Currencies, Page 29**

Sinn Féin to back peace accords
Sinn Féin, the IRA's political wing, indicated it would back the Northern Ireland peace deal and abandon its opposition to taking seats in a "partitionist" government. Chairman Mitchel McLaughlin confirmed that the leadership would recommend a Yes vote north and south of the border. **Page 16; Reassuring gunmen, Page 11**

US and Ukraine in nuclear deal
The US and Ukraine signed a deal to allow the former Soviet republic to import technology to revamp its troubled nuclear industry. It follows Ukraine's bowing to US pressure not to build turbines for a nuclear plant in Iran. **Page 10**

London votes on having a mayor
Londoners vote today on whether to have a mayor and assembly – and every poll shows they will say yes. With a mandate from an electorate of 5m, a mayor would be responsible for transport, planning, development and police and fire authorities. **Page 11**

Seoul and IMF agree targets
South Korea and the International Monetary Fund agreed new macroeconomic targets to include lower interest rates and a current account surplus, in spite of the first contraction in economic growth in nearly two decades. **Page 8; Editorial Comment, Page 15**

Rise in German rightwing attacks
A German report said rightwing violence had increased 25 per cent in the last year on the back of a surge in electoral support. **Page 3**

74 die on Peru oilfield flight
Rescuers said 74 people died but 12 survivors were found in dense Amazonian jungle after the crash of a Peruvian air force jet chartered by Occidental Petroleum to fly oil workers to a field near Ecuador.

Former Thai PM dies in London
Former Thai prime minister Chatichai Choonhavan died in a London hospital of liver cancer. **Page 8**

Pakistan privatisation push
Pakistan's prime minister Nawaz Sharif ordered the country's privatisation commission to speed up offers for sale of public sector companies. **Page 8**

Drive to develop Lubombo
Leaders of South Africa, Mozambique and Swaziland launched a programme to attract investment in tourism and agriculture to the unspoiled Lubombo coast. **Page 6**

Museum left $300m art collection
A collection of 85 works by Picasso, Matisse, Modigliani and other European masters, valued at $300m, has been bequeathed to the New York Metropolitan Museum of Art by Natasha Gelman, a museum trustee.

BUSINESS NEWS

Renault and Fiat plan new force in European bus and coach market

Renault VI and Iveco, truck and bus units of France's Renault and Fiat of Italy, are to merge their coach and bus activities to create a powerful force in the fragmented European market. **Page 17**

Philips, Dutch electronics group, said it was "evaluating various strategic options with respect to its stake" in PolyGram, the world's largest music company. **Page 18; Lex, Page 16**

Salomon Brothers and Chase Manhattan, US investment banks, may move large parts of their derivatives business from the London International Financial Futures and Options Exchange to the Deutsche Terminbörse in Frankfurt. **Page 17**

Krupp, German steel and engineering group that is merging with Thyssen, expects a sharp rise in profits this year. **Page 18**

Générale de Banque, Belgium's biggest bank, is stepping up efforts to find a "white knight" bidder as an alternative to the proposed merger with Belgo-Dutch financial services group Fortis. **Page 17**

Liberty Life and Standard Bank Investment ended merger talks which would have created South Africa's largest financial services group. **Page 18; Lex, Page 16**

Kirch, German media group, dismissed reports that it faced a financial crisis. **Page 18**

Commercial Union and General Accident, UK composite insurers, had their £14bn ($23bn) merger plan approved by the European Commission. **Page 25**

OM, Sweden's derivatives exchange, is to launch a futures contract based on the 10-year Sweden government bond. **Page 18**

Samsung, South Korean conglomerate, plans to concentrate on electronics, finances and services in an attempt to cut its debt burden. **Page 19**

PLDT, Philippines telecoms group, is seeking a foreign partner to dilute its majority stake in Piltel, its ailing cellular phone subsidiary. **Page 19**

Philippine exports rose 23.6 per cent year-on-year in March to $2.47bn, government figures show. **Page 8**

Japanese long-term market interest rates fell to a record low, partly due to gloom about the depressed economy. **Page 8**

AMP, Australia's largest insurance and fund manager, expects a market capitalisation of more than A$13bn ($8.7bn) when it lists on the Australian and New Zealand stock exchanges on June 15. **Page 17; Priority plan, Page 19**

Whitbread, UK brewer, reported pre-tax profits at the top end of expectations and said it would create 5,000 jobs in its pubs, restaurants and hotels. **Page 25**

Eli Lilly chairman Randall Tobias, credited with turning round the US pharmaceuticals company, is to retire. **Page 22**

World Equity Markets
The latest trends and data from more than 50 national markets at a glance
Page 38

Daimler and Chrysler near merger

German and US groups close to announcing the world's biggest link between industrial companies in $35bn deal

By Haig Simonian in Detroit, Richard Waters in New York and Graham Bowley in Frankfurt

Daimler-Benz, Germany's biggest industrial group, and Chrysler, the US carmaker, were yesterday on the brink of announcing a merger that would create the world's biggest link between two industrial companies.

The Chrysler board and Daimler supervisory board were meeting yesterday to approve the final stages for the deal to create a massive industrial group covering every corner of the motor industry. Some analysts estimate the value of the combined company at $35bn.

The transaction has already been approved by Deutsche Bank, Daimler-Benz's biggest shareholder, and by Kirk Kerkorian, the largest shareholder in Chrysler with almost 14 per cent.

Chrysler shareholders are expected to be offered 0.56 of a Daimler-Benz share for every Chrysler share they own. The ratio will alter to 0.62 of a Daimler-Benz share once the German group gains approval from shareholders for the special dividend announced recently, which will reduce the stock's value once it goes ex-dividend.

The merged company is expected to have joint chief executives. There will be joint headquarters in the US and Germany. However, the group will be incorporated in Germany. That structure means it will retain a German-style board structure, with separate management and supervisory boards.

The news of the negotiations was received with astonishment by other carmakers and the financial community. Although Chrysler had been periodically rumoured to be in discussions with other manufacturers, BMW had been thought to be its most likely partner.

Shares in both groups rose sharply as financial markets reacted positively to the news. Analysts said the merger would give both companies access to each other's markets and provide scope for cost savings. Daimler-Benz's stock climbed by DM14.95 or 8.4% to DM193.40, while Chrysler's shares stood at $48 up $6⅞ by early afternoon in New York.

The prospect of a link between Daimler-Benz and Chrysler could prompt further consolidation in the world motor industry, in which profits have remained under pressure because of overcapacity.

J T Battenberg, president of Delphi, the world's biggest car components group, said: "I think it's going to continue. The pressures on the industry are intense. The consumer is seeing price reductions for the first time in years and there's a tremendous need to reduce costs."

In spite of the apparently advanced nature of the negotiations, both sides stressed in a statement yesterday that no agreement had been reached and gave no assurances that a merger would in the end take place.

Difficulties hindering the possible tie-up might lie in fusing the two very different cultures. Daimler has largely abandoned attempts to expand outside the transport market after diversification earlier this decade into other business areas led to huge losses.

Daimler-Benz was being advised by Goldman Sachs, which was also involved in its recent attempts to gain control of Rolls-Royce Motor Cars in the UK, and Deutsche Bank. Chrysler was being advised by CSFB.

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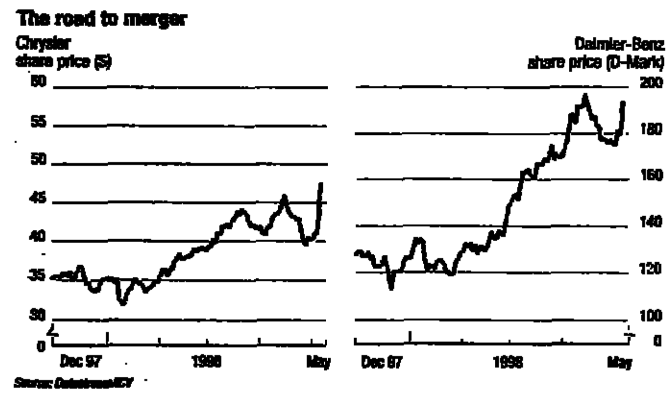
The road to merger



Source: Datastream/ICV

Madeleine Albright, at the FT yesterday, praised Benjamin Netanyahu for being 'helpful and constructive' at the London talks. Picture Ashley Ashwood

Albright warns of last chance for Oslo accords

Secretary of state says Palestinians need to 'put flesh on their dreams'

By David Buchan and David Gardner in London

The US said yesterday its invitation to Israeli and Palestinian leaders to visit Washington next week was the last chance to save the Oslo peace accords. If the meeting failed, "a different tack" would be tried.

In an interview at the Financial Times, Madeleine Albright, the US secretary of state, said that after two days of talks in London with Yassir Arafat, the Palestinian leader, and Benjamin Netanyahu, the Israeli prime minister, she had given the latter time to try to sell a package of US propositions to his cabinet.

Having already secured Palestinian approval of the package, she made clear that the invitation to the Washington summit was "conditional on [Mr Netanyahu] accepting the ideas". If he accepted, President Bill Clinton would then launch the "final status" negotiations for which Israel has been pushing, she said.

If he baulked – and Mrs Albright made clear she saw no excuse for this because of Mr Netanyahu's "pretty strong position in his cabinet" – the US would ditch the step-by-step approach of the 1993 Oslo accords.

The US would continue to try to broker Middle East peace because of the importance of Israel and the Arab world to US national interests. But if Mr Netanhayu rejected the US ideas, "we will have to re-examine the way we go about it and take a different tack".

She refused to say what new course the US might propose, but it is clear Washington would not shy away from publicly apportioning blame for the collapse of the five-year peace process.

On his return to Israel, Mr Netanyahu showed himself prickly about appearing to be going to Washington under duress. Asked if rejecting the US invitation was even an option, he told Israel's Army Radio: "Possibly... I am ready to go, that's not the problem. But if they [the US] tell me I have to go and accept certain conditions that are unacceptable to us – we are a sovereign country."

In her interview, Mrs Albright praised the Israeli prime minister for being "very helpful and constructive" in the London talks, set up when Tony Blair, the British prime minister, was in the Middle East last month.

But she added that Mr Netanyahu "needs to persuade them [his cabinet] of what we are all persuaded, that while Israel's security is obviously for Israel to decide on, a nation is inherently much more secure if it can get along with people who are living cheek by jowl as well as with its other [Arab] neighbours".

The problem now was the size of Israel's next withdrawal from the West Bank, Mrs Albright said. The Palestinians needed progress before entering any decisive negotiations "to put flesh on their dreams".

Palestinian official resigns, Page 4
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Danish government acts to end strike

By Hilary Barnes in Copenhagen

Denmark's centre-left government intervened yesterday to end a strike which has crippled the manufacturing, transport and construction sectors and may hurt the chances of Danish ratification of the European Union's Amsterdam Treaty.

"We face a grave situation, which calls for action now," said Poul Nyrup Rasmussen, prime minister.

About half a million workers have been on strike or locked out since April 27 in what has turned into Denmark's most serious labour conflict for 13 years.

The government put forward legislation, which is scheduled to be rushed into law today, imposing a settlement on the labour market and making the conflict illegal from midnight tonight.

Mr Nyrup Rasmussen said if it were left to unions and employers to find a solution, the conflict would run into a third week "and this would be irresponsible and unacceptable".

The strikers have threatened to punish the government by voting against ratification of last year's Amsterdam Treaty on closer European integration if their demands are not met.

However, Mr Nyrup Rasmussen said he was sure that Danes would be able to distinguish between the strike and the EU treaty when they vote on May 28.

All 15 EU member-states must ratify the Amsterdam Treaty for it to take effect. Danes threw a spanner in the EU's works in 1992 when they voted against the Maastricht Treaty. They later reversed their verdict.

The strike has stopped all flights to and from Copenhagen's international airport and halted deliveries of petrol to service stations, which is gradually causing road transport to come to a halt. Some hospitals have suspended operations because cleaning personnel are on strike.

The conflict began after a ballot of trades union members rejected a two-year deal agreed by the Confederation of Danish Trades Unions and the Employers' Association in March.

The government's solution is within the cost framework of the original agreement - about 4 per cent a year. But workers will have the right to two extra days off a year, and parents of children under 15 will have the right to three "care" days off a year. This is one more free day and two more "care" days than the employers were prepared to award.

Employers' contributions to employee pension funds will rise by less than originally proposed, and an annual sickness tax of DKr325 ($48) per employee paid by employers will be dropped.

"The settlement is cost-neutral," said Mr Nyrup Rasmussen, whose government is assured of a majority in parliament for the legislation.

WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Ave	9104.22	(-43.35)
NASDAQ Composite	1858.65	(-6.26)
Europe and Far East		
CAC40	3947.45	(+2.54)
DAX	5229.80	(-2.23)
FTSE 100	5892.4	(+6.8)
Nikkei	15,243.84	(-357.28)
US Lunchtime RATES		
Federal Funds	5.25%	
3-mth Treas Bills: Yld	5.124%	
Long Bond	102½	
Yield	5.944%	
OTHER RATES		
UK: 3-mo Interbank	7⅝%	(same)
UK: 10 yr Gilt	110.375	(110.375)
France: 10 yr OAT	103.55	(103.59)
Germany: 10 yr Bund	107.15	(107.22)
Japan: 10 yr JGB	110.71	(110.59)
NORTH SEA OIL (Argus)		
Brent Dated	$14.105	(14.15)

GOLD		
New York Comex		
June	$301.8	(304.6)
London	$300.15	(303.25)
EXCHANGE RATES		
Dollar		
New York Lunchtime		
£	1.6595	
DM	1.76635	
FFr	5.921	
SFr	1.47425	
Y	132.855	
London:		
£	1.6621	(1.6591)
DM	1.7648	(1.7728)
FFr	5.9161	(5.9436)
SFr	1.4754	(1.4835)
Y	132.74	(131.74)
Tokyo Close		Y 131.7
Sterling		
DM	2.9332	(2.9412)

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EUROPE

Dutch premier set for election victory

By Gordon Cramb in Amsterdam

Wim Kok appeared well placed for a second term as Dutch prime minister yesterday, with voters in a general election expected to have reinforced the position of his Social Democrats as the largest party.

But his ability to continue with the current three-party coalition – which has won international praise for its economic achievements – was looking less certain.

Exit polls indicated that the reformist D66, the junior partner, would end up with as few as 13 seats, nearly halving its parliamentary presence and putting it on the border-line of what the party itself said would be enough for it to remain in ministerial office. Still, this was higher than the worst earlier forecasts.

On Tuesday night Mr Kok made an implied plea for D66 supporters not to desert their party, saying its contribution to his government had been important.

The prime minister's party was projected to add nine seats to its 37 in the 150-strong lower house. Its other partner, the free market VVD of Frits Bolkestein, was on course to increase its 31 MPs by six.

The Christian Democrat CDA, the main opposition party and chief loser in the last election in 1994, was down a further six from 34.

Paul Rosenmöller, leader of the environmentalist Green Left, said yesterday his party was ready to join the political mainstream if that was what voters wished. It will more than double its representation from five to 13, according to the initial indications.

The process of forming coalitions takes a long time in the Netherlands, as partners seek to merge their election manifestos into a single document determining how state finances will be deployed. In 1994 it took about four months before the latest coalition was formed.

Mr Kok had been adjudged the winner of the final televised debate of the campaign on Tuesday night. That came in spite of attacks from Mr Bolkestein, who accused him of funding campaign promises on credit, and by Mr Rosenmöller, who said he had allowed the gap between rich and poor to widen.

The premier was also under fire for the shortened term of office he had secured in Brussels last weekend for the Dutch banker Wim Duisenberg as first head of the European Central Bank. This was denounced by Mr Bolkestein as an "ugly compromise" and by Mr Rosenmöller as a "travesty".

However, Jaap de Hoop Scheffer, CDA leader, failed to land any good blows, and voters polled on the debate gave him the lowest marks. Having positioned his party to the left of Mr Kok on social security issues while maintaining a tough law and order image, he had to defend its policies on both fronts.

Nordic states split on EU ties

By Tim Burt in Floro, Norway

The Danish government's intervention yesterday to end the country's national strike, which is likely to increase the difficulties in ratifying the European Union's Amsterdam treaty, comes within the context of deep divisions within Nordic countries over closer ties with the EU.

Although Denmark has vowed to remain outside the single currency, the government is determined to secure a solid Yes vote on May 28 in favour of the Amsterdam treaty on closer EU ties.

Poul Nyrup Rasmussen, prime minister and a former trade union economist, has made it clear that a No vote on the treaty would severely damage, if not sink, Denmark's influence within the EU.

"He has been caught in an impossible situation," one senior Danish economist said yesterday. "If the Danes reject Amsterdam it would represent an enormous setback for our EU relations."

While wanting to secure a Yes vote, Mr Rasmussen admits that Euro scepticism in Denmark means he cannot yet risk a referendum on joining the euro.

His dilemma reflects the widely differing attitudes to the EU not only in Denmark but elsewhere in the region.

Sweden is also split on EU integration, and has vowed to abstain from the first wave of economic and monetary union.

Göran Persson, prime minister, says the Swedes are simply not ready for the single currency. Opposition politicians such as Carl Bildt reject that view, but Mr Persson will not commit Sweden to the euro – at least not before September's parliamentary elections.

Leading companies in Sweden, the region's largest economy, are not prepared to wait. Manufacturers and exporters are already considering plans to switch invoicing and accounting to the euro from January 1999.

"The prospect for Sweden is that it could be dragged into the euro by corporate rather than political willpower," said one Stockholm analyst.

With Norway remaining defiantly outside the EU, it has fallen on Finland to become the standard-bearer for the Nordic region in the euro zone.

Paavo Lipponen, Finnish prime minister, said Finland did not want to be seen as the Nordic champion in Brussels. But as a founder member of the single currency and with a board seat at the European Central Bank, it may have to assume that role reluctantly.

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ECB BATTLE AVIGNON SUMMIT WILL TRY TO HEAL DIFFERENCES

Kohl-Chirac moves to calm bank row

By Robert Graham in Avignon and Peter Norman in Bonn

President Jacques Chirac and Chancellor Helmut Kohl yesterday signalled their determination to paper over the differences in Franco-German relations which nearly derailed last weekend's launch of the European single currency.

Just before leaving for a bilateral summit in Avignon, Mr Kohl, defended the two countries' ties as "good but always complicated".

"It is not true that the Franco-German relations are endangered. They are just facing new problems," the chancellor said shortly before leaving Bonn. Relations between the two countries had "always been a process of give and take and marked by difficulties".

In advance of the meeting President Chirac's spokesperson also shrugged off talk of tensions and a breakdown in the two countries' ties: "The motor is solid and working."

But officials in both camps yesterday were clearly taken aback by the extent of the criticism directed at both men for their behaviour at the Brussels summit, which was overshadowed by the wrangle over the presidency of the European Central Bank.

As a result the Avignon meeting, which began last night and continues today, was was thought likely to become a damage limitation exercise to prop up the prestige of both leaders.

Part of the agenda will consider preparations for a joint position at the forthcoming G8 summit in Birmingham. The French will also be trying to convince the Germans that they are right to be critical of plans by Leon Brittan, the European trade commissioner, for an EU-US free trade area in services.

In comments to the Bundestag, the lower house of parliament, yesterday, Mr Kohl said a difficult theme in Avignon would be the Franco-German and British efforts to create a European aerospace industry to compete with Boeing and McDonnell Douglas of the US "and I don't know how far we will get."

He appealed to parliament to view Franco-German relations in their institutional and historical context. The two nations had very different traditions of government and very differently trained élites.

France, with its centralised political tradition, had to move much further than Germany, with its federal structure, in accepting the independent European Central Bank based in Frankfurt. He reminded a hushed house that his friend, the late French President François Mitterrand, found it difficult to accept German unity in 1989.

Kohl under fire during the Bundestag debate yesterday Reuters

Bankers expected to delay interest moves

By Wolfgang Münchau in Frankfurt

The row between France and Germany over the nomination of the Dutch banker Wim Duisenberg as head of the European Central Bank has not changed interest rate expectations in the financial markets, despite initial fears that interest rates could go up across Europe.

International investors and economists agree that central banks will not begin to make serious efforts to converge their interest rates until after the summer break.

On Tuesday the Bank of Spain cut its key short-term rate from 4.5 per cent to 4.25 per cent, a rate that is still almost 1 percentage point above the German and French securities repurchase rates of 3.3 per cent.

After the controversial European Union summit in Brussels at the weekend, some analysts had predicted that central banks might take "revenge" on politicians. Others predicted that the impression of political interference would make it more difficult for the new central bank to establish credibility.

"If they moved now [on interest rates], they'd look like a bunch of children who have been beaten up on the playground," said one fund manager. "This is not the way they do business at the Bundesbank. They may make mistakes occasionally but they do take their responsibility seriously."

The Bundesbank is to hold its next central bank council meeting, at which it usually discusses monetary policy and interest rates, next Thursday .However, the German central bank is due to publish its annual accounts on that day, and is therefore unlikely to take a decision on interest rates.

Most forecasters are looking for a rise in German interest rates of 0.2 or 0.25 percentage points at around July. There is also an emerging consensus that the short-term rate at which economic and monetary union will be launched on January 1 will be less than 4 per cent.

Thomas Mayer, economist at Goldman Sachs, is forecasting a year-end rate of 3.8 per cent. This would imply that German and French interest rates would have to rise by 0.5 percentage point, while Spanish rates will have to decline by 0.45 percentage points.

"These rates are too low for Ireland, Finland, Spain and the Netherlands, and too high for France. We might see asset bubbles in some of the countries, but not necessarily inflation in the prices of tradable goods," he said.

Alison Cottrell, international economist at PaineWebber believes the earliest time for a German rate rise is the summer. "They will give the Italians some time for easing. On domestic grounds they could wait until September," she said.

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MEPs reassess censure threat

By Lionel Barber in Brussels

The European parliament is backing away from threats to register a vote of no confidence in the appointment of Wim Duisenberg as president of the European Central Bank.

Despite universal distaste for the weekend deal which saw Mr Duisenberg agree to serve a shortened term in office, MEPs are aware that a vote of censure could trigger a crisis of confidence in the launch of the single currency.

MEPs will grill Mr Duisenberg and the five other appointees to the ECB board at hearings over the next two days. Parliament has no formal power to block the deal but intends to ask Mr Duisenberg if he will step down in the event of a vote of no confidence.

Crucially, however, the full parliament will consider the Duisenberg nomination as part of a package. This makes it impossible to single out one nominee without sinking the whole board.

Senior parliamentarians are weighing a resolution which would express disapproval over the deal brokered early on Sunday morning at the European Union summit in Brussels, which selected the founder members of the euro zone and the six ECB appointees.

One official close to the internal discussions over how to handle the ECB hearings said there was "unanimous" dissatisfaction with the procedure for selecting the ECB board, but that parliament had in the past maintained its sense of responsibility.

Four years ago MEPs expressed outrage over the deal which saw Jacques Santer nominated as president of the European Commission after Britain vetoed Jean-Luc Dehaene, prime minister of Belgium. But Mr Santer was confirmed by 20 votes.

The full parliament will vote on the ECB appointments by simple majority next Wednesday.

Strike mars Ukraine's image of reform

By Charles Clover in Kiev

A coal miners' strike in Ukraine to protest at cuts in subsidies to the industry, grew yesterday to involve 48 mines and more than 100,000 miners. The dispute, which began on Monday, initially involved 34 mines.

The strike will mar Ukraine's effort to showcase its economic reforms on the eve of next week's economic conference in Kiev hosted by the European Bank for Reconstruction and Development.

Last month the Ukrainian finance ministry cut overall budget expenditures by a third in an attempt to qualify for a three-year $2.5bn loan from the International Monetary Fund, which could be signed as early as July. The government hopes to use the EBRD meeting, to be attended by 2,900 delegates, as a forum to announce further plans.

Coal subsidies, one of the most sensitive political issues in Ukraine, were slashed by about a third from last year's level of $800m as part of the budget-cutting effort. Past attempts by the government to cut coal subsidies have caused similar strikes.

"This will only worsen the situation of near collapse in the coal industry," said Mikhail Volinets, spokesman for the Independent Union of Ukrainian Miners in Kiev.

The miners are demanding that the government pay wage arrears. The amount owing grew by 1bn hryvnia ($500m) last year and now totals some 2.1bn hryvnia, or an average of 10 months' back pay.

The miners also want to increase real wages to the level they were at during the Soviet era. In real terms, wages are now only 30 per cent of their 1990 levels.

Falling subsidies, however, will make meeting the miners' demands nearly impossible.

Coal mining used to be one of the most important industries in Ukraine. But the country's prolific coal reserves have been seriously depleted, making coal production uneconomic in much of the country.

About 40 per cent of Ukraine's 240 mines are loss-making, and production has fallen by more than half since 1991.

Miners are also forced to work in extremely hazardous conditions. So far this year 166 have been killed in accidents, including a fire in the Skochinskoho mine in the Donetsk region which killed 63 workers in April. Two more miners were killed yesterday in an incident in Luhansk, in the north-east of the country.

CREDIT LYONNAIS DISPUTE IS OVER AFTER CONCESSIONS BY PARIS

EU ready to clear French bank aid

By Samer Iskandar in Brussels

The European Commission is all but certain to approve an estimated FFr100bn ($16.9bn) aid package for Credit Lyonnais later this month after the French government agreed to new sacrifices by the troubled bank.

The understanding, reached on Tuesday afternoon during a visit by Dominique Strauss-Kahn, French finance minister, to Karel Van Miert, European competition commissioner, ends five weeks of bitter disputes between the Commission and Paris.

The deal now within reach is the result of extensive talks on the fringes of last weekend's EU summit in Brussels and an intervention by Jacques Santer, president of the Commission.

"The offers made by the French side are sufficient to consider a positive position," said Mr Van Miert.

At the start of April, Mr Van Miert gave the French government one month to come up with new concessions. Otherwise, the Commission would rule on the case regardless, and, given the lack of information, would probably veto the aid.

An official yesterday said the Commission was now waiting for the French government to submit the agreed proposals in writing. The deal would be cleared at the Commission's regular weekly meeting on May 20, on Mr Van Miert's recommendation. Mr Van Miert informed his colleagues of the French government's latest proposals at yesterday's weekly meeting.

In exchange for the Commission's approval of an estimated FFr100bn of government aid, the French state-owned bank will sell FFr620bn of assets. These comprise most of Crédit Lyonnais's European assets outside France.

However, the Commission agreed the bank could keep its London and Luxembourg operations, which the French government argues are essential for the bank's viability. Crédit Lyonnais may also be allowed to keep its Frankfurt-based activities, but will have to sell its German subsidiary BfG. The bank would also sell an undisclosed number of French branches.

The exceptions, however, will be matched by sales of an equivalent amount in Asian assets – such as banking operations in Hong Kong, Singapore or Tokyo – and possibly North American activities.

Earlier French suggestions that asset disposals could include sales of loan portfolios to other banks have been shelved. "We are talking hard assets," a Commission official said yesterday. "FFr620bn of assets, no more, no less."

In 1995, the Commission approved a FFr45bn aid package on the condition that Crédit Lyonnais sell FFr310bn of assets. The Commission insisted on doubling the disposals after it emerged that the extent of the bank's accumulated losses would result in a much larger aid package.

NEWS DIGEST

SPANISH UNEMPLOYMENT

Strong economic growth cuts jobless rate to 19.6%

Spain's jobless rate, the highest in the European Union, has dropped below the 20 per cent mark for the first time since 1992, according to quarterly figures from the national statistics institute. The fall in the first quarter, to 19.63 per cent from 20.03 per cent in the last period of 1997, is a reflection of strong economic growth now estimated to be running at an annual rate of more than 3.5 per cent.

The figures – which show the number of unemployed falling by 120,000 to 3.17m, almost 270,000 fewer than a year earlier – followed a prediction by José María Aznar, the prime minister, that Spain's abnormal jobless rate could "disappear" in three or four years.

The quarterly estimate is considered to overstate the real level of unemployment in Spain, but is regarded as the best indicator of trends.

Cristóbal Montoro, state secretary for the economy, said growth was translating into new jobs "as never before". On existing trends the country could reduce the jobless rate by 1.5 percentage points a year, he added. Trade unions warned against complacency. **David White, Madrid**

GERMAN POLITICS

CDU revises policy blueprint

Germany's Christian Democrats yesterday tried to heal a recent rift with their Bavarian sister party by publishing a revision of a controversial policy blueprint. The document, to be adopted by a CDU party congress in Bremen this month, toned down proposals for higher energy taxation, making clear that a "go-it-alone" policy in Germany would be damaging for jobs.

The paper, largely written by Wolfgang Schäuble, Chancellor Helmut Kohl's designated successor, also incorporated a tougher line on law and order that is likely to appeal to the Bavarian Christian Social Union (CSU).

It now calls for the repatriation of foreigners convicted of crimes in Germany, while its theme of "zero tolerance for law breakers and acts of violence" echoes the policy of Theo Waigel, German finance minister and CSU leader.

Mr Schäuble said the document's main purpose was to underline society's need to adapt to globalisation and to explain why Germany had to tackle problems after 16 years of government by Mr Kohl. The proposals will be debated with the CSU to produce a joint election platform, possibly in June. **Peter Norman, Bonn**

EUROPEAN CRIME

EU defrauded of Ecu1.4bn

The European Union was defrauded of Ecu1.4bn ($1.5bn) last year, according to official figures released yesterday. More than 5,000 cases were detected in 1997, up from 4,552 cases worth Ecu1.3bn a year earlier.

The European Commission said part of the increase in reported cases was explained by "the huge efforts put on improved efficiency in detecting and preventing fraud". It added that the EU was the target of international crime syndicates. "About 50 crime syndicates have been identified in the course of large-scale investigations."

Cigarette smuggling alone accounted for Ecu1.6bn in lost duties and taxes last year. A quarter of this was a loss for the EU, with the remaining loss being borne by national governments. Fraud linked to the common agricultural policy was down 13 per cent. **Samer Iskandar, Brussels**

LATVIAN CITIZENSHIP

Naturalisation terms to ease

Latvia's government yesterday moved to defuse tension with its Russian minority when it approved draft amendments to the county's citizenship law, easing requirements for the naturalisation of children of the Baltic state's 650,000 non-citizens.

The government hopes these amendments will speed up the integration of 28 per cent of Latvia's population who are non-citizens. The vast majority are ethnic Russians who have refused to apply or failed to qualify for citizenship since Latvia regained its independence from the Soviet Union in 1991.

If the amendment is approved by parliament, citizenship will be granted to children born in Latvia after August 21 1991, provided their parents have lived in the Baltic country for at least five years.

Children born after that date can also claim citizenship until the age of 16, provided they have completed studies in a Latvian language secondary school or passed the Latvian language exam. **Matej Vipotnik, Vilnius**

TURKISH HEARING

Çiller's husband sentenced

A Turkish court yesterday found the husband of Tansu Çiller, former prime minister, guilty of misleading a parliamentary commission investigating the couples' wealth. The Anatolian news agency said the court convicted Ozer Çiller and sentenced him to five months in jail, but commuted the prison term to a fine of just TL1.9m ($7.50), suspended for five years.

Mr Çiller was found to have presented a parliamentary commission with false translations of documents about the Çillers' ownership of property in the US. **Reuters, Ankara**

FRENCH NUCLEAR WASTE

Railway suspends shipment

France's state railway company yesterday suspended transportation of nuclear waste to a reprocessing plant after a report that trains had been contaminated by radioactivity. SNCF said it asked the nuclear safety board to advise on potential risks to staff.

The Green party, a junior partner in the ruling coalition of Lionel Jospin, prime minister, reacted yesterday by calling for France to quit the nuclear power industry. Its hardline comments may increase the discomfort of Dominique Voynet, the Green environment minister.

France is highly dependent on nuclear power for its electricity output, having embarked on a massive build-up in the wake of the oil shocks of the 1970s. Nuclear power stations account for about three-quarters of electricity production. **David Owen, Paris**

ITALIAN DISASTER

Floods leave 17 dead

At least 17 people were killed and about 50 were missing yesterday after torrential rain drove rivers of mud and rocks through towns in southern Italy, sweeping away cars and destroying houses. The interior ministry said that some 800 people were without homes.

The hardest hit towns were Sarno, Quindici and Siano, in Salerno and Avellino provinces. **Reuters, Naples**

ITALIAN ECONOMY MINISTER OUTLINES POST-EMU STRATEGY

Ciampi defies odds on monetary union

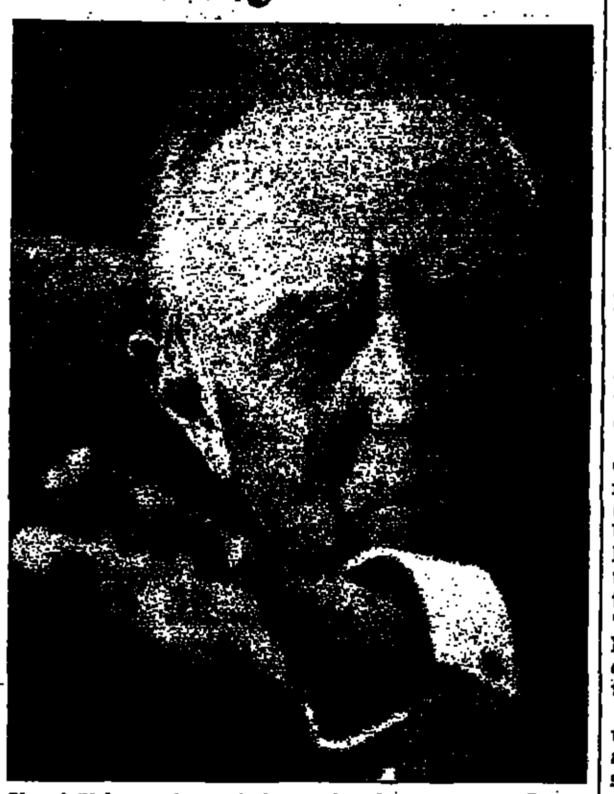
By James Blitz and Martin Wolf

Carlo Azeglio Ciampi, Italy's treasury minister, has this week achieved his long-held goal of getting Italy accepted as a founder member of a single European currency.

Over the last few days attention has focused on the squabble between France and Germany over who should be the leader of the new European Central Bank. It is a tussle in which Mr Ciampi, along with his Italian colleagues, has been largely a spectator.

However, his achievement in getting Italy accepted into Emu – an ambition he has harboured for nearly a decade as central bank governor, prime minister and now as Treasury chief – is no less historic than monetary union itself.

Even 18 months ago few people thought this ambition achievable. Its achievement marks a turning point for an Italian government soon to celebrate its second birthday.



Ciampi: 'Unions understand what needs to be done' Reuters

Now the 77-year-old technocrat, the most internationally respected member of Romano Prodi's government, is looking to his next challenge: sustaining the improvement in the public finances, while reducing the country's high unemployment rate.

Sitting in his spacious office in the Italian Treasury building this week, Mr Ciampi looked like a man not even close to giving up power.

Asked what Italy's economic post-Emu strategy would be, his tone was dry: "Continue on the path we have been following."

There will be concern over whether the Italian government can keep reducing its ratio of public debt to gross domestic product. But with typical confidence, Mr Ciampi insists the ingredients for future reductions in the debt burden – low interest rates, tight control over public spending and faster growth – are now in place.

"You have to remember that the fiscal adjustment we achieved to get into the euro took place while there was considerable stagnation of the economy," he said. "Now we hope to have a growth rate that is similar to that in other EU countries."

He is confident the country's powerful trade unions have acknowledged the need to continue with budgetary restraint. "They understand what needs to be done and why it needs to be done. They won't make trouble."

Regenerating the underdeveloped south, where Italian unemployment is heavily concentrated, is perhaps the biggest task on the government's agenda.

Emu membership means keeping a tight grip on public spending, and this means that cash for public sector infrastructure projects is limited.

Mr Ciampi says that L6,000bn ($3.4bn) of public money is available for infrastructure development, a figure that appears low given the poor state of the south. But he believes the strength of the northern economy and recent growth in the Italian capital market should generate projects that can be jointly financed by the private and public sectors.

What of the country's political future? Mr Ciampi acknowledges that the time will come when technocrats like himself – admired by his peers but unelected by his people – must give way to politicians. "In the end it is the politicians who must start running things once again," he sighs.

His tone is that of a man who knows that technocrats cannot go on serving up tough political medicine to the public. But it is the tone, too, of a man who has seen politicians repeatedly fail to do the right thing for Italy.

Kosovo adversaries dig in for final showdown

Wary of a protracted guerrilla war in its southern province, Belgrade is preparing a full-scale offensive, writes **Guy Dinmore**

Ethnic Albanians in the villages of Kosovo are digging trenches, smuggling in arms and food and peering at the enemy through binoculars. Up on the bare hills and ridges, Serb police are reinforcing sandbagged checkpoints and bringing in heavy weapons.

For the moment this low-level war in Serbia's restive southern province has reached a military stalemate, but it appears interior ministry forces and the federal Yugoslav army may soon launch a full-scale offensive in an attempt to wipe out separatist rebels in one blow.

Western military observers say Belgrade's military machine, weakened and demoralised by the wars that broke up former Yugoslavia, knows no other way. "Their training is woefully ineffective," said one diplomat. "Their concept of tactics is like Bosnia, blow the hell out of it and send in the nasties."

This was the approach used by special police forces against strongholds of the shadowy Kosovo Liberation Army (KLA) in the Drenica region of central Kosovo in late February and March. Farmsteads were razed and, according to diplomats, some captured Albanians were executed. About 30 women and children were among the dead.

Lacking the money and means, Belgrade cannot afford to fight a protracted guerrilla war. Neither the mainly conscript army nor the police have training in counter-insurgency. They lack night-fighting equipment and their intelligence is limited in a hostile environment, where ethnic Albanians, in tightly knit clans, make up about 90 per cent of Kosovo's 2m people.

An overwhelming majority seek independence from Serbia, a demand that finds no support from any government.

The army says it has ambushed armed groups bringing weapons over the mountain range marking the formidable 100km border with Albania. But experts say the frontier is impossible to seal.

The KLA, which may be able to muster a core of about 500 fighters, roams freely at night and is mounting regular raids on exposed and poorly constructed police posts. The federal army has only about 50 helicopters, and some of them have never moved. If the KLA starts laying mines along unprotected roads at night then, as one diplomat said, "the whole place will come to a juddering halt".

Armed villagers, not formally a part of the KLA, are providing valuable shelter and logistics. Quoting Mao Zedong, China's revolutionary leader, the diplomat commented: "The KLA are like a fish in water."

If Slobodan Milosevic, the federal Yugoslav president, defies warnings by the international community and goes for the all-out military option, he risks exacerbating divisions within the federal army and police.

Western governments would also be bound to block future investments in Serbia by a threatened deadline of May 9.

Relations between Mr Milosevic and Momcilo Perisic, the army chief of staff, are poor and rumours of Gen Perisic's impending dismissal have circulated in Belgrade for months.

The general caused a storm in January when he suggested that the future of the army lay in co-operation with Nato and its Partnership for Peace programme. Many officers are bitter that Mr Milosevic's more trusted interior ministry forces have been beefed up at the expense of the army, which cannot even afford to pay its foot soldiers.

Recent comments by Serb officials have indicated that a big offensive is planned.

In the provincial capital Pristina, Veljko Odalovic, the Serbian governor of Kosovo, said the goal of the Kosovo "terrorists" was to move the Albanian border eastwards, linking it with the nearby region of Decani and then the central Drenica area.

"We are in position to prevent that, to use serious force to eliminate the danger to our border and our territory," he said. "No price is too high to pay."

Nationalist rhetoric carried on state media has prepared Serbs for this final reckoning of accounts.

"Some western powers have constantly been encouraging the Albanian separatists openly to start a war but the Albanians know very well what is in store for them in a possible war," proclaimed Vojislav Seselj, a paramilitary leader during the wars in Bosnia and Croatia and now a deputy prime minister in the Serb government.

Diplomats expect a village-by-village assault by special police units while the army provides logistical support and rearguard cover along the border. Most Serbs have fled rural areas while Albanians have evacuated many women and children. Nonetheless, the death toll – already exceeding 130 this year – is likely to soar if the KLA and village militia try to hold their ground.

"Defending villages against an army prepared to use any amount of force is suicide," commented one western military expert. "If they try to defend traditional areas they will die, as the Serbs are prepared to use total, maximum force."

● A policeman was shot dead and two seriously wounded in an attack in the mining town of Kosovska Mitroviva yesterday. Serb officials said one "terrorist" was killed.

Rise in attacks by German extreme right

By Lucy Seay in Bonn

Violent rightwing attacks in Germany have increased by 25 per cent in the last year on the back of a surge in far-right support, an official government report stated yesterday.

Some 11,700 rightwing criminal attacks were reported in 1997, from 8,700 a year earlier.

The annual report from the office for the protection of Germany's constitution comes less than two weeks after the far-right German People's party (DVU) took 13 per cent of the vote in a regional election in Saxony-Anhalt.

Manfred Kanther, the interior minister, called the rise of the DVU "extremely unpleasant" but said that while it was essentially a political group, rather than a terrorist or criminal organisation, he had no grounds to outlaw it.

"We will continue to fight extremism on the far right and the far left," he said. "And we will win. But these groups must be beaten politically, at the ballot box."

Mr Kanther said the rise in far-right support, up 7 per cent from 1996 to around 48,500 supporters, was mainly in the east of the country and among young people. Unemployment in the east helped explain the higher levels of support there, although not necessarily this year's sudden surge in crime, he said.

The report also noted the rise of the skinhead music scene, with what it felt was an inflammatory influence.

Of the 48,500 far-right supporters, 7,000 were identified as being violence-prone. "It was these people that we saw on May 1," said Mr Kanther, referring to a far-right National Democratic party rally that turned to violence in Leipzig, and other violence in Berlin.

The report also noted still-high levels of support in the country's former communist east for the extreme left. Mr Kanther said this support was mainly among older people, protesting against their living conditions.

While promising no let-up in police action against criminal extremists, Mr Kanther announced an extension of education programmes and publicity campaigns based around tolerance and democracy.

The opposition Social Democratic party yesterday called for tougher police action against rightwing extremists.

Emerging markets 'winning record inflows'

By Stephen Fidler in Washington

Inflows of equity capital to emerging markets are likely to reach record levels this year, but the five Asian economies most troubled by financial crisis can expect no net inflow of private capital, the Institute of International Finance reported yesterday.

The institute, a Washington-based association of financial institutions from around the world, said it expected all private capital flows to the emerging markets of Asia, Latin America, Africa, the Middle East and eastern Europe to moderate this year to a net \$221.3bn from \$232.6bn in 1997. Of this a record \$149.3bn would come from equity investment, up \$1.6bn from last year.

The five troubled Asian economies – South Korea, Indonesia, Malaysia, Thailand and the Philippines – would continue to suffer as banks pulled out resources. Banks were expected to withdraw a net \$19.8bn this year, after pulling out \$26.9bn last year, but this would be offset by other flows, including net equity investments of \$16.9bn.

It also forecast a moderation in private capital flows to China from \$64bn last year to \$48bn, with both equity investment and bank lending declining.

Outside Asia, private capital flows would fall only moderately by \$5bn to \$167bn this year.

Bank lending to all emerging economies would recover from about \$4bn to \$12bn, but far below the \$107bn of 1996. Private non-bank lending – mainly the bond markets – would provide an estimated net \$60bn this year, down from \$80bn last.

But equity flows would rise modestly, to account for about two-thirds of all private flows. According to Georges Blum, the institute's chairman, this proportion of equity finance "is a healthy development for the long-term growth and stability of the emerging market economies."

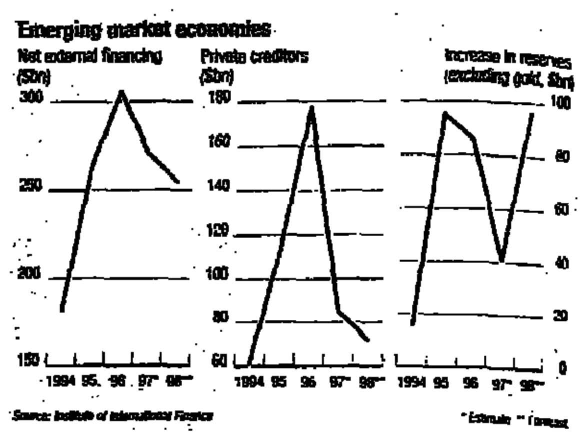
Portfolio equity flows are expected to increase by about \$10bn to \$35bn this year, but foreign direct investment is expected to moderate from \$122.9bn to \$114.5bn.

This was mainly due to lower foreign direct investment in China, which was expected to decline to from \$43bn to \$37bn. Outside Asia, FDI is projected to be broadly steady at about \$70bn, buoyed by substantial investment into Brazil of about \$18bn, in part due to its privatisation programme.

Short term credit to all economies was expected to fall by about \$17bn this year, after outflows of \$12.2 bn last year and inflows of \$61.9bn in 1996. This year's fall was partly due to the conversion of \$22bn of Korea's short term claims into medium term claims.

Bank lending to Latin America was also expected to increase, largely due to Brazil. Banks were expected to fund part of its privatisation programme and there have been very strong short term inflows so far this year, attracted by high domestic interest rates.

The Institute also forecast a big rise in Latin America's current account deficit from \$58bn to \$77bn, or 4.1 per cent of the region's combined gross domestic product.



Source: Institute of International Finance
* Estimate ** Forecast

Palestinian attorney general resigns

By Judy Dempsey in Jerusalem

The Palestinian attorney general has resigned after saying it was impossible to deal with growing interference in the judicial system by the Palestinian security services.

Fayez Abu Rahma, appointed less than a year ago, said he had resigned "because I felt I could not perform my duties due to the interference and the obstacles placed in the way of my work by others."

When he was appointed, Mr Rahma pledged to bring prisoners to trial or release them promptly. But he said he had never been informed about the detention of political prisoners or when trials were held. The security forces had ignored his decisions and opinions.

Mr Rahma's resignation reflects the crisis in the Palestinian judicial system where, according to the independent Palestinian Human Rights Monitoring Group (PHRMG), the security forces continue to undermine the rule of law and the independence of the judicial system.

In its latest report published yesterday, the group said the Palestinian Authority's security services continued to suppress free speech and political activity through detentions, holding suspects without trial and extracting confessions, often false, by using torture.

Frustrated with such interference, last month about 60 judges from the West Bank and Gaza offered their resignations. They were rejected by Freih Abu Meddein, the justice minister, a supporter of Yassir Arafat, president of the PA.

Several judges, particularly Mr Rahma, have been complaining about the PA's interference in the judicial system and the corruption.

But in recent weeks, they have been particularly concerned over the way in which the PA opened an investigation into the murder last March of Muhi al-Din Sharif, a leader of Hamas, the Islamic Resistance Movement which claimed responsibility for suicide bomb attacks on Israelis.

The Palestinian Authority claimed Mr al-Sharif was killed in a Hamas feud.

The speed in which both the PA and Israel denied any involvement in his death as well as subsequent closed-doors investigation led to much criticism, not only from the judiciary but from university students in the West Bank and Gaza.

Bassem Eid, a prominent human rights lawyer and one of the authors of the PHRMG report, yesterday said the security services had expanded their activities in the universities, recruiting informers to identify those opposing the PA.


Fayez Abu Rahma: complained about interference in the judicial system and corruption *Reuters*

Sudanese peace talks end in recriminations

By Michela Wrong in Nairobi

A new round of peace talks between the Sudanese government and southern rebels ended yesterday with the two sides failing to agree on a ceasefire and accusing each other of initiating hostilities while negotiations were still in progress.

The outcome of the two-day talks in Nairobi will come as a disappointment to western donors, who had pressed for a halt to the 15-year civil war to allow food and seeds being distributed by aid agencies to reach hundreds of thousands of southern Sudanese facing famine in three drought-hit provinces.

Sudan People's Liberation Army (SPLA) representatives rejected an appeal by Khartoum's Islamic administration for a truce, saying the government was trying to "blackmail" them. They said a ceasefire should be negotiated separately, without being linked to the aid issue.

Delegates representing the government, which analysts say wants a breathing space in which to recover from a series of battlefield defeats last year, immediately warned that the SPLA rebuttal would have an impact on the hunger-stricken population in the south.

"Military operations and fighting will disrupt relief operations," predicted the Sudanese foreign minister, Mustafa Osman Ismail. "We are very sorry the other side did not see that."

The level of mutual suspicion was clear, with both delegations claiming the other side had launched attacks in the southern Blue Nile province while negotiations were under way and citing the new hostilities as proof of bad faith.

Bonaya Godana, Kenyan foreign minister chairing the talks, said that in spite of such differences, there had been "significant progress" on the principle of self-determination for the south, with both sides saying an eventual referendum on the issue should be internationally monitored.

"There has been more movement than might at first appear," said a diplomat, apparently commenting on the self-determination issue.

But delegates noted that the size of the area defined as "south Sudan" remains a big issue of contention, as does the question of the separation of religion and state, a condition demanded by the SPLA, which rejects the application of *Sharia* (Islamic) law in the north.

An SPLA official said the recent promulgation in the north of a new constitution he described as "100 per cent Islamic" had removed any room for compromise on the religion issue. "The whole discussion is a non-starter," he said.

Both sides are due to meet again in the Ethiopian capital of Addis Ababa in three months time, Mr Godana said.

NEWS DIGEST

ANNAN'S VISIT TO RWANDA

Controversy resurfaces over UN role in genocide

Kofi Annan, United Nations secretary-general, can expect a reception that is lukewarm at best and overtly hostile at worst when he flies to Rwanda today as part of his eight-nation tour of Africa.

During his brief stopover in the hilly capital of Kigali the UN chief will be confronted with the stark reality of the 1994 state-sponsored campaign to eliminate between 500,000 and a million Tutsis and moderate Hutus.

His itinerary involves several wreath-laying ceremonies at the sites of massacres that formed part of a mass bloodletting the Rwandan leadership believes the UN in general, and Mr Annan in particular, could have halted had they wished.

The issue of Mr Annan's role in the UN's failure to intervene in 1994 surfaced with a vengeance over the weekend in an article published in the New Yorker magazine by Philip Gourevitch, an author on Rwanda. He told readers that Mr Annan, then in charge of peacekeeping operations, was informed by Romeo Dallaire, commander of the UN forces in Rwanda, that extremist Hutus were planning a genocide of the Tutsi ethnic minority three months before the killing began.

Mr Annan's office refused to approve a request by Major-General Dallaire to raid arms caches held by the Hutu militias.

Repeatedly quizzed about the article on the Nairobi leg of his trip, Mr Annan on Monday described the New Yorker article as "an old story which is being rehashed" and said he had no personal regrets about his actions.

"The failure to prevent the 1994 genocide was local, national, international, including (by) member states with capacity," he said. **Michela Wrong, Nairobi**

See editorial comment

GLOBAL WATER SUPPLIES

Warning of catastrophe ahead

Two thirds of the world's population will be hit by water shortages by 2020, Aly Shady, vice president of the World Water Council, warned yesterday. Already 300m people in 26 countries are affected.

The governing body of the council meeting in Cairo yesterday decided to speed up preparation of a report on a global strategy to safeguard water supplies.

The council, founded in 1994, is seeking \$5m of from donors to allow the report to be completed before the second world water forum in the Hague in March 2000.

The forum is expected to be a turning point for policy-makers determined to push water to the top of the worldwide political agenda. So far no funding has been committed for the WWC report although the Dutch government has said it will give \$2.5m if other donors find the rest.

The success of the WWC strategy will depend upon co-ordinating the environmental policies of countries whose political condition and regional concerns often severely hinder region-wide co-operation.

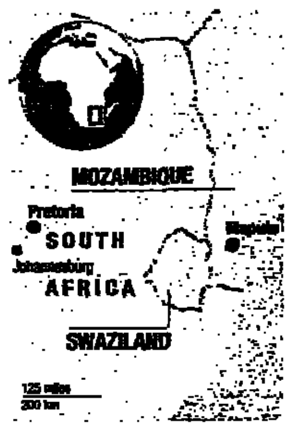
"It's our responsibility now to act to avert a water catastrophe," said Mahmoud Abu-Zeid, WWC president and Egypt's minister of public work and water resources.

Egypt is trying to work with nine other Nile states to maximise use of the river. **Mark Huband, Cairo**

هكذا من الأصل

LUBOMBO DEVELOPMENT THREE NATIONS SEEK $65m FOR TOURISM AND FARMING IN UNSPOILT REGION

Former southern African war zone takes aim at foreign investors



By Victor Mallet in Durban

The leaders of South Africa, Mozambique and Swaziland yesterday launched an ambitious programme to attract hundreds of millions of dollars of investment in tourism and agriculture to the remote region straddling their borders.

President Nelson Mandela, President Joaquim Chissano and King Mswati III met in the port city of Durban to inaugurate a conference of potential investors in the Lubombo Spatial Development Initiative, a 100,000 sq km area with 300km of unspoilt coastline named after the Lubombo mountains.

The project, the latest in a series of southern African investment zones sponsored by Pretoria, is similar to the "growth areas" and "growth triangles" supported by governments in south-east Asia.

South Africa, Mozambique and Swaziland have pledged to build or upgrade roads and other infrastructure and reduce bureaucracy at their borders to encourage investors. The Lubombo zone is fertile and rich in wildlife, but largely undeveloped; the now-concluded guerrilla war in Mozambique made it even more inaccessible.

"We are putting aside the barriers that have prevented transnational co-operation in the past," Mr Chissano said. "We plan to turn it into a globally competitive destination for the fastest growing industry in the world – travel. The aim is to make sure that the name of Lubombo will stand alongside the Victoria Falls, Mt Kenya and the Kruger National Park."

Mr Mandela called the potential of the region "truly amazing" and said the three governments would establish a framework for investors "in line with best practice worldwide". King Mswati said Lubombo was "in desperate need of an economic boost".

Lubombo's promoters have already outlined R330m ($65m) of possible projects for the private sector, including hotels, a casino, game reserves and a cashew nut processing factory, but foreign investors are likely to remain cautious until they see evidence that poverty-stricken Mozambique intends to streamline its bureaucracy and match the road-building already begun by South Africa. The prevalence of malaria is another problem.

By far the biggest project mooted within the zone so far is a controversial concession granted by the Mozambique government to The Elephant Coast company of US gold trader James Blanchard.

His representative Howard Geach said yesterday that Mr Blanchard had already invested $4m and wanted to attract partners to finance $800m of projects in southern Mozambique, including 5,000 hotel beds. But some Mozambican government officials are hostile to the plans of Mr Blanchard, who had close ties with the opposition movement Renamo.

South Africa's economy dominates the region, and political tensions between the three governments also come to light occasionally. The South African foreign ministry apologised to Swaziland recently following threats by South African trade unions to impose sanctions on the country to force it to change its old-fashioned monarchy.

Embraer wins $315m order for its new jet

By Jonathan Wheatley in São Paulo

Embraer, the Brazilian aircraft manufacturer, yesterday signed a contract with Continental Airlines of the US for 25 firm orders and 50 options for its new 37-seat regional jet, the ERJ-135.

The firm orders are worth about $315m and delivery will begin in June next year.

The deal brings sales of the new jet, due to make its maiden flight in July, to 73 firm orders and 122 options.

The ERJ-135 is based on Embraer's successful 50-seat ERJ-145, for which Continental has 50 firm orders and 150 options over the next 10 years.

Gordon Buthene, Continental's chief executive, said: "The 135 uses 90 per cent of the same parts as the 145 and pilot training is the same. It gives us huge economies of scale by being in the same family."

The only direct competitor for the ERJ-135 was a 38-seat regional jet being developed by Fairchild of the US, an option Continental rejected because of its existing commitment to Embraer.

Mr Buthene said the deal was part of Continental's plan to become the world's only all-jet airline in the next five years. "This is a clearly superior jet which gives us turbo-jet performance at turbo-prop prices and a clear advantage over our competitors," he said.

The ERJ-145 has led Embraer's recovery from losses of $330m in 1994, the year it was privatised, to a loss of $14m last year.

Mauricio Botelho, president, said this included a $100m write-off and the company had been in profit since the fourth quarter of 1997.

He said sales of the ERJ-145 – 180 firm orders and 246 options – had overtaken those of its main competitor, the CRJ regional jet produced by Bombardier of Canada, despite being launched three and a half years later in 1996.

"Bombardier's jet is based on an executive jet, which is a luxury aircraft flying about 300 hours a year, whereas ours was developed as a workhorse to fly 3,000 hours a year," he said.

Embraer was considering launching a 70- or 80-seat jet as its next project in response to a 70-seat version of Bombardier's CRJ.

The Brazilian and Canadian governments are in talks on a trade dispute concerning alleged subsidies to their aviation industries. Embraer is also considering legal action against Bombardier after it was excluded from a Nato contract managed by Bombardier for supply of training aircraft in Canada.

Embraer had been due to supply its Tucano trainer in a $100m deal, and claims it was excluded as a result of the success of the ERJ-145.

Asia's old silk route is far from smooth

By Selina Williams in Tbilisi

Central Asian and Caucasian states yesterday agreed to seek a multilateral accord to improve transport through the region.

Delegates at the fifth working conference of Traceca – an initiative of the European Union to develop a transport corridor linking Europe and Asia along the old Silk Route through the Caucasus – signed a declaration supporting the move.

The agreement, which will simplify tariff and customs arrangements throughout the Traceca region, is aimed at making the corridor more competitive.

"This agreement is a necessary step to achieve the overall conditions needed for Traceca to be competitive," said Cees Witterbrood, the head of the EU's technical assistance unit for the former Soviet republic.

"Now transport is very fragmented and there are problems at customs and discriminatory measures between various countries, so it is necessary to promote all forms of transport under equal conditions for all participating countries," Mr Witterbrood said.

Currently only one multilateral agreement – the Sarakhs Agreement of 1996 – regulates rail traffic in Central Asia. Any other agreements are complicated bilateral ones that are difficult to administer.

Delegates at the conference envisage that the new multilateral agreement will extend the Sarakhs Agreement to other countries and to road and sea routes in order to compete with other routes such as the Russian corridor.

The Georgian Black Sea port Poti faces stiff competition from Russia's larger Black Sea port at Novorossiisk and Russian railways. They are being as flexible as possible to attract cargo.

Although the southern route through Georgia is shorter, a unified Russian rail network means that goods can go from Novorossiisk to Kazakhstan in Central Asia on one tariff. Whereas goods entering Poti have to traverse at least three different tariff zones, both rail and maritime, before reaching the same destination.

Cargo moving through the Trasece corridor has already grown since its inception in 1996. Cargo turnover increased 30 per cent in 1997 and 20 per cent in 1996. One third of Uzbek cotton and one million tonnes of oil from Kazakhstan moved through the corridor in 1997.

The European Bank for Reconstruction and Development has already allocated $22m to upgrade and develop ports in Azerbaijan, Turkmenistan and Georgia and build a new cotton terminal in Uzbekistan.

Delegates also decided yesterday to admit Moldova as the eleventh member to Traceca, to join the five Central Asian states, the three Caucasus countries, Ukraine and Mongolia.

NEWS DIGEST

TRADE IN ANIMALS

Brussels seeks veterinary agreement with Canada

The European Commission is to propose the conclusion of a veterinary agreement between the European Union and Canada to speed up bilateral trade in animals and animal products. The deal would lead to fewer product inspections as both parties would acknowledge that their sanitary measures were equivalent.

This is one of a series of veterinary agreements being negotiated by the EU. It already has one with New Zealand and is close to signing deals with the US and the Czech Republic. Negotiations are under way with Australia, Uruguay and Chile.

Franz Fischler, EU farm commissioner, said the Canada deal was an important step towards ensuring health issues did not lead to trade disputes. The EU's regionalisation policy, whereby it agrees not to block a trading partner's exports in the event of an isolated regional problem, was another element of the agreement, he said. **Michael Smith, Brussels**

US IMPORTS OF CHINESE CLOTHING

Quota cut in retaliation

Washington has reduced the quota of clothing China is allowed to export to the US for the fourth time in four years in retaliation for China's practice of transhipping goods through other ports so they can be sent to the US under the quota of other countries. However, US penalties have been shrinking as transhippers become more sophisticated at eluding US customs agents, according to a customs official.

Although customs estimates that $2bn-$4bn in Chinese clothing is illegally imported each year, agents last year were able to gather evidence of only $1.7m in transhipments. Altogether the US has applied about $94m in charges against Chinese quotas under a US-China bilateral textile agreement.

As allowed under the pact, triple damages – about $5m – have been charged this year, but new charges may be added later on if sufficient evidence is gathered. The bilateral pact calls on the US to produce records naming the Chinese manufacturer, and that requirement has been increasingly difficult to meet. Carlos Moore, of the American Textile Manufacturers Institute said there was no indication that Chinese companies had eased up on illegal shipments. "We've had reports of massive shipments through Macao and we know they continue through Hong Kong unabated," he said.
Nancy Dunne, Washington

FREE TRADE PACT

Peru and Chile reach accord

Peru and Chile have reached a free trade agreement that will take effect on July 1, Peru's industry minister has announced. The accord, drawn up in Lima by officials from the two countries, is to be signed in the two capitals in the coming weeks. The deal would remove tariffs on 2,500 products immediately, while duties on other products would be phased out over three to 18 years, industry minister Gustavo Caillaux said.

Peru, the only South American country with which Chile does not have a free trade agreement, hopes the accord will allow it to boost its exports to its southern neighbour by 50 per cent in two years. Free trade talks between the two countries began in 1993, but gathered steam only last year.
Reuters, Lima

CONTRACTS & TENDERS

INTERNATIONAL TENDER

MERGING OF UIB AND BTEI BANKS

« EVALUATION AND LAUNCHING MISSION »

As part of the upcoming merger of:

Union Internationale de Banques - UIB
and
Banque de Tunisie et des Emirats d'Investissements - BTEI

The two banks call for international tenders for the selection of a specialized firm to conduct a mission for the assessment of the two banks and the enactment of the merger.

Interested parties may obtain the specifications book from one of the following addresses on payment of 1,000 dinars non-refundable:

UIB, Secrétariat permanent des marchés
10, rue d'Egypte - 1002 Tunis
or
BTEI, 5 bis, rue Mohamed-Badra
Le Belvédère - 1002 Tunis

Bids should be sent to the following address by registered mail in two sealed envelopes:

Ministère des Finances, Place du Gouvernement - La Kasbah - 1030 Tunis.

The outer envelope should be anonymous and marked: «DO NOT OPEN - CONFIDENTIAL - TENDER UIB/BTEI N° 98/1»

The name of the tenderer should not be mentioned on this envelope.

The final date for the receipt of tenders by the bureau d'ordre central of the Ministry of Finance is set for May 30, 1998 at 1:30 p.m. (the seal of the bureau d'ordre is proof of date).

REGIONAL WORRIES 'INDONESIA IS JUST LEADING THE PACK DOWN'

Shares fall in south-east Asia

By John Ridding in Hong Kong

Fears of political instability in Indonesia yesterday rattled regional markets, combining with specific economic problems in neighbouring economies to send shares and currencies lower.

Malaysia's share index fell by almost 4 per cent, Singapore's Straits Times Index lost about 1.4 per cent and Thailand's SET index 1.8 per cent. In Japan, the Nikkei 225 average closed down 2.3 per cent. Indonesia's stock market sagged to a 16-month low, closing 4.72 per cent down.

In South Korea, the threat of labour disputes pushed the Korea stock exchange composite index down 3.97 per cent to 376.23, the lowest level this year.

"All of these markets have their own troubles, made worse in some cases by the situation in Indonesia," said Kent Rossiter, senior investment adviser for Asian equities at Nikko Securities in Hong Kong. "Indonesia is just leading the pack down."

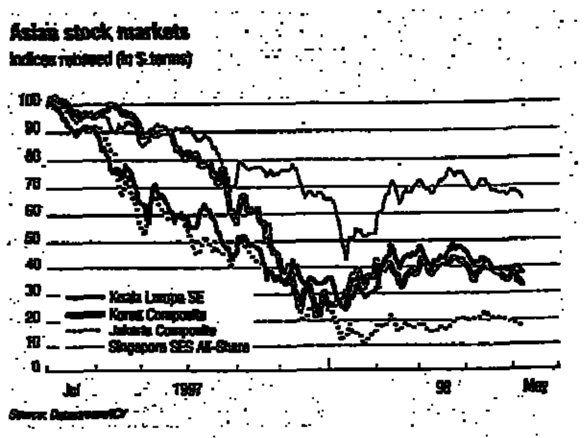
Currencies were also affected as the 10 per cent fall in the Indonesian rupiah raised pressures across the region. The Malaysian ringgit fell about 2.5 per cent to 3.78 to the US dollar, while the Singapore dollar lost almost one per cent to trade at 1.60 to the greenback.

Indonesia's plight can hurt regional economies in several ways. "In the case of Japan, they have loan exposure of more than US$20bn to Indonesia," says Bruce Gale of the Political & Economic Risk Consultancy in Singapore. "If these banks have to write off loans to Indonesian companies, that will make it harder for them to meet capital adequacy ratios. Then there will be knock-on effects to other countries where Japan is a lender, such as Korea."

Singapore and Malaysia are seen by investment analysts as most exposed to the problems in Indonesia, partly because of their proximity but also because of trade flows between the three economies.

While Singapore is an important entrepôt for trade with Indonesia, and Singaporean and Malaysian companies are exposed through loans and investments there, commentators said Japanese and Hong Kong companies were also vulnerable. "Indonesia is a big supplier of primary commodities such as gas and timber to Japan, while in the case of Hong Kong there are a lot of overseas Chinese companies with a presence there," said one fund manager.

Analysts predicted regional markets would continue to struggle and that Indonesia would weigh on sentiment. While the yen has regained ground against the US dollar, economists forecast renewed instability in the currency markets.



Why Jakarta needs peace in the markets

By Sander Thoenes in Jakarta

As rioters and looters raged through the city of Medan yesterday, a police officer grabbed a loudspeaker and pleaded: "The government will solve the economic problems but there must be peace first."

The officer's plea could have been Indonesia's plea to investors, who rushed to sell rupiah and stocks again yesterday in response to the riots, driving down the exchange rate by 12 per cent to Rp9,050 to the US dollar.

Indonesia's battered economy, too, needs peace first in the currency and money markets before conglomerates can even start to restructure their banks and enterprises.

A key condition for such peace is progress in restructuring at least $67.7bn in corporate offshore debt. Indonesian government officials and corporate executives will meet international bankers and officials in Tokyo tomorrow to try to break an impasse in talks.

But peace in the markets is less likely than peace on the streets of Medan. "Stability is still far away," says Syahrir, a prominent economist. "You have a currency market that is not stable, because you have to factor in the political situation. The money market is in deep trouble. There is no investor confidence in the bank restructuring."

Few bankers in Jakarta expect much progress on debt rescheduling until the end of the year. One obstacle is that no side is willing to insure the lenders against a further depreciation of the rupiah during a roll-over period.

The Indonesian government earlier embraced the Ficorca model used in Mexico for a debt rescheduling agency, in which the government insured the exchange rate risk during the roll-over period.

But Radius Prawiro, the government's negotiator, says Indonesia will not insure the exchange rate risk as Mexico had done. "The government has no money," he says. "The government cannot commit anything."

Government advisers and diplomats say Indonesia is pushing Japan and Singapore to set up a $20bn fund that could back the insurance, but may settle for taking on at least some of the risk by insuring a limited range for the rupiah. In return, it hopes for bank commitments to resume trade financing and lending to Indonesian banks.

But Indonesia is facing a divided committee of lenders – with Japanese banks said to be taking a harder line – who are no longer as much in a rush to reach an agreement as in January.

Bankers and others complain there is little sign that Indonesia's corporates are serious about rescheduling and restructuring their companies. "They're playing golf," says one Indonesian executive. "They've given up. How can these companies survive in an environment they are totally unfamiliar with?"

Rudy Soraya, group director at Putra Surya Perkasa, insists he is still trying to save his company by closing franchises for consumer financing and fast-food, laying off workers and selling real estate assets. "But we're operating on the assumption this is as bad as it gets," he said. "If the economy nosedives, it is an academic question. There will be no business."

Japanese bond yield hits record low

By Gillian Tett and Bethan Hutton in Tokyo

Japanese long-term market interest rates plunged to a record low yesterday, partly due to a wave of gloom about the depressed economy.

The yield on the 10-year benchmark bond (known as 182 Japanese government bond) touched 1.385 per cent during the day's trading before closing at 1.395 per cent, from a previous close of 1.435 per cent.

The fall has rekindled fears that domestic and international investors may be turning even more bearish about the Japanese economy, in spite of the government's recent Y16,000bn ($120bn) stimulus package.

Japan's key stock market index, the Nikkei 225, also fell 2.3 per cent to 15,243.84, the lowest level since January, as traders returned in a bearish mood after a two-day public holiday.

The falls in the bond yield and equity prices have been partly triggered by investor concern that the government's stimulus package will not stave off a downturn.

Japanese commercial banks in particular have started buying government bonds amid more unease over the economic outlook.

Tetsuro Sugiura, chief economist at Fuji Research Institute, which is affiliated to Fuji Bank, says: "Market participants are now saying that the stimulus package will not have enough effect to boost the economy. Although we think the package will boost growth by 1.5 per cent, we think we cannot avoid an economic downturn."

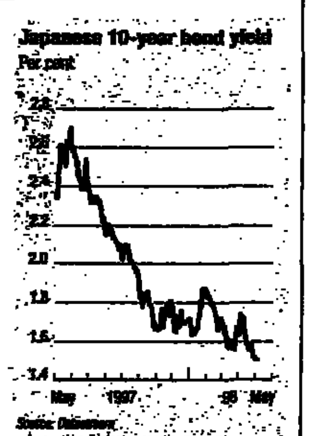
These concerns were heightened yesterday by Koichi Kato, the influential secretary-general of the ruling Liberal Democratic party, who said he opposed permanent tax cuts. Stimulus packages have contained only temporary tax cuts.

He hinted that more financial institutions were likely to collapse this year, following a spate of failures in November.

The market movements have also been driven by expectations that Japanese government institutions will continue to purchase large amounts of bonds in coming weeks. This buying should support the market despite the fact that the government is expected to issue Y6,000bn in new bonds to fund its planned Y16,000bn package.

The Bank of Japan, for example, has been purchasing about Y400bn worth of government bonds a month to inject additional liquidity into the money markets.

Meanwhile, the Ministry of Finance's Trust Fund Bureau, which manages money in public pension schemes and the national postal savings network, has indicated that it will absorb about Y3,000bn of the Y6,000bn new bonds that the government is expected to issue soon.



NEWS DIGEST

CHATICHAI CHOONHAVAN

Flamboyant former prime minister of Thailand dies

Chatichai Choonhavan (left), former Thai prime minister and one of the country's most flamboyant politicians, died yesterday in a London hospital where he was being treated for liver cancer. He was 78. Gen Chatichai was prime minister from 1988 to 1991, when he was overthrown in a military coup. He was later declared "unusually rich" by a special tribunal but made a dramatic comeback, leading his Chart Pattana party into ruling coalitions in 1994 with the Democrat party of Chuan Leekpai, the current premier, and in 1996 with the New Aspiration party of Chavalit Yongchaiyudh.

During his reign as prime minister, Gen Chatichai presided over the beginning of the boom in the Thai economy, promoting Japanese investment and rapprochement with neighbouring Cambodia, Burma, Laos and Vietnam. But tolerance of corruption within his government – dubbed the "buffet cabinet" because it was "all you can eat" – eventually led to his downfall.

Until his death Gen Chatichai, was leader of the Chart Pattana party, now in opposition with 52 MPs. His death is expected to lead to a slow break-up of the party, which is torn by internal conflicts. **Ted Bardacke, Bangkok**

PHILIPPINE TRADE

Exports increase by 24%

Philippine exports rose 23.6 per cent year-on-year in March to $2.47bn, according to government figures yesterday.

Electronics was top earner, representing 52 per cent of exports on $1.28bn, a gain of 48 per cent from a year earlier. The US was the top market again, taking 33 per cent of the total, followed by Japan with 17 per cent. Economists said the buoyant export performance differentiated the country from the export slump in south-east Asia, although it had a particularly high imports input and added little value in the electronics sector. The stockbroker SocGen-Crosby is forecasting a Philippine trade deficit of 13 per cent of gross national product on 1998, leading to a current account deficit of 4.6 per cent, the highest in the region, because of continuing high import levels. **Justin Marozzi, Manila**

INDIAN ECONOMY

Trade deficit grows 26%

Dull export growth left India's trade deficit 26 per cent higher at $6.8bn in the fiscal year which ended last month, against $5.4bn for 1996-97. Generally low oil prices helped keep the deficit down. The commerce ministry, which has set an ambitious target of 20 per cent export growth for this year, said exports last year grew just 2.64 per cent to $34bn, against $33bn a year earlier. Imports were up 5.79 per cent at $41bn compared with $38.5bn. **Mark Nicholson, New Delhi**

Indian minister mollifies China

By Mark Nicholson in New Delhi

George Fernandes, India's defence minister, yesterday sought to retreat from his remark that China was India's chief strategic threat. He said he was committed to dialogue to resolve bilateral disputes and to "peace and amity" with Beijing.

The statement followed a sharp retort from Beijing after Mr Fernandes described China as India's "potential threat number one". The unusually direct remark broke a traditionally conciliatory tone towards India's neighbour.

Mr Fernandes did not retract detailed allegations that China was "encircling" India by supplying missile technology to Pakistan, deploying nuclear weapons in Tibet and building a surveillance centre in Burma.

It remains unclear to what extent the comments by Mr Fernandes, a political maverick and vocal critic of China's policies in Tibet, were a reflection of government policy or simply his own views.

There has been no public word from Atal Behari Vajpayee, who is prime minister and foreign minister. In the first official response, the foreign ministry said: "India remains committed to... the development of... mutually beneficial relationship with China, our largest neighbour." The Times of India quoted aides to Mr Vajpayee as saying that Mr Fernandes' views "do not reflect the government's considered views on China".

Nevertheless, Mr Fernandes is widely seen in Delhi as representing the views of the military establishment. Senior military figures believe that China, rather than Pakistan, poses India's main long-term military challenge and is the central reason for Delhi's nuclear programme.

This lobby has sought a harder line towards China, arguing that the long-standing border dispute, unresolved since the two countries' 1962 war, will only be settled by adopting a forceful stance towards Beijing and making overt India's nuclear deterrent.

Sharif tries to give a push to Pakistan state sale

Privatisation would help pay off debt, but progress is slow, writes **Farhan Bokhari**

Nawaz Sharif, Pakistan's prime minister, has ordered the country's privatisation commission to speed up offers for sale of public sector companies.

The move is partly designed to impress Pakistan's international donors, who meet in Islamabad next week. The "Pakistan development forum", hosted by the World Bank, will take stock of Pakistan's economic reforms, including the privatisation programme.

There are plans for the sale of two large gas companies, the largest public sector bank, companies in oil and gas exploration, a refinery, a shipping company, the telephone company and smaller companies in the electricity business, carved out of the national power company.

While prospective investors might find the list impressive, business analysts are counselling caution.

Many foreign businessmen with long experience in the country say they are tired of years of unfulfilled promises. "The proof of the pudding will be in its eating," said one.

The privatisation programme was launched in 1990 when Mr Sharif, during his previous tenure as prime minister, promised to halt growing losses in the public sector by turning over its management to the private sector.

Since then, three banks – one constituted from the former Bank of Credit and Commerce International, which was taken over by Pakistan – have been the most visible privatisations in a range that extends to bread-making factories and a chain of four small tourist hotels.

The government estimates that it has raised $1.7bn from such sales. Estimates of potential receipts range from $7bn to $15bn.

Mr Sharif wants the money to help pay Pakistan's $43bn foreign debt. Servicing that debt over the next year is expected to account for almost 40 per cent of government expenditure when the budget is announced next month.

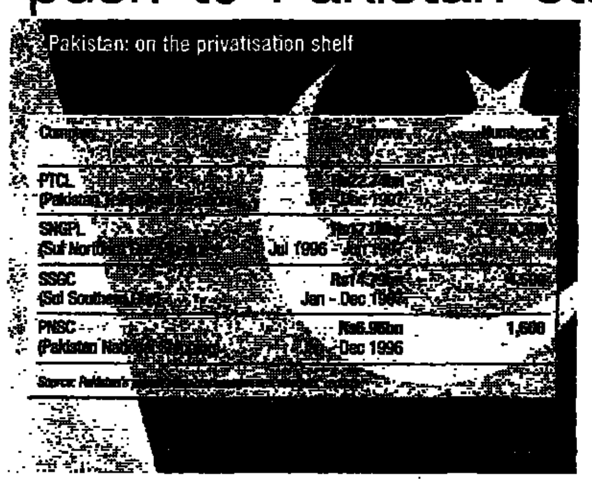
He also sees privatisation as the way to stem what he called the "haemorrhaging" of funds through the country's public sector companies, many of which have been running at a loss for years.

Private business warns against what Zahid Zaheer, secretary general of the Overseas Chamber of Commerce and Industry, calls "putting too much on the plate". He suggests that the companies should be reformed first and that "the focus should first be on one or two companies".

Last month the government announced that it had appointed Goldman Sachs, the Wall Street investment bank, as financial adviser for privatisation of the Pakistan Telecommunications Corporation (PTCL). The government sold 12 per cent of PTCL in 1995 on Pakistani and overseas markets, but a number of deadlines since then to sell 26 per cent in a block to a single buyer, which would also take over the management, have passed without progress.

Economists say a weak economic outlook, uncertain sentiment across the domestic stock markets and continuing losses in the public sector have deterred investors and could continue to do so.

Critics also point to the fact that the government has sought to change the terms of the operations of the country's 19 private power companies, all of which have some foreign equity or foreign loans. The companies agreed to invest during the previous administration of Benazir Bhutto on the basis that at least 60 per cent of the electricity generated by them would be bought by the Water and Power Development Authority, the state-owned monopoly distributor. But now they have been told to cut the tariff by 20-25 per cent on the grounds that they were given exorbitant rates which have caused mounting losses to WAPDA.



Mr Salman Shah, former chairman of the privatisation commission who stepped down last February when his three-month tenure under an interim administration ended, says: "Investors will not come if we keep on changing the rules of the game all the time. Stability includes stability of contracts along with all other factors."

Some analysts also argue that more preparatory work needs to be done before the privatisation programme gathers pace. Mr Shah believes Pakistan needs to strengthen its regulatory frameworks for different sectors of the economy. "The big challenge is to avoid having a privately owned monopoly instead of a state-owned monopoly," he says.

The government has established regulatory authorities in the telecom, power and gas sectors. Critics say, however, that these need to be run by a new breed of managers, replacing bureaucrats responsible for huge losses in the public sector.

Mr Sharif admits that the privatisation process "may prove to be painful in the short run and would require restructuring the old paradigms about the economy and the state's role". But he knows that Pakistan can ill afford to turn back.

ECONOMIC CONTRACTION LOWER INTEREST RATES AND A CURRENT ACCOUNT SURPLUS

Seoul and IMF agree on targets

By John Burton in Seoul

South Korea and the International Monetary Fund yesterday agreed to new macro-economic targets that will include lower interest rates and a current account surplus in spite of the first contraction in economic growth in nearly two decades.

Gross domestic product is expected to shrink by at least 1 per cent, which would represent Korea's biggest recession since 1980, compared with an IMF forecast in February of 1 per cent growth for 1998.

The current account surplus, the first in five years, is expected to climb to $23bn, against an earlier Fund projection of $8bn, because of a cut in imports of capital goods and raw materials.

The finance ministry said that the IMF had also approved a gradual lowering of interest rates to prevent a threatened wave of bankruptcies.

Korea has been pressing for lower interest rates to ease tight liquidity, but the IMF has warned that a quick cut could destabilise the economy by causing an outflow of foreign capital that has been attracted by high interest rates in domestic financial markets. Korea has sought to lower interest rates to 15 per cent in the first half of 1998 against the current rate of 20 per cent.

The IMF said it would allow Korea to expand its budget deficit to 1.7 per cent of GDP, up from 0.8 per cent, to provide more funds for the unemployed. The jobless rate has nearly tripled to 6.5 per cent during the first three months of 1998.

The new macro-economic targets were approved at the end of a two-week quarterly review and will serve as the basis for the IMF's approval of a sixth outlay of $1.8bn later this month as part of its $58.5bn rescue package.

Meanwhile, Lee Kyu-sung, finance minister, said the government might be forced to inject capital into ailing banks in an effort to restructure the financial sector. The government is reviewing restructuring plans submitted this week by 12 banks whose capital adequacy ratios are below the 8 per cent set by the Bank for International Settlements.

In Washington, Nam Duck-woo, a respected former prime minister of South Korea, called on the government to ease its requirement for banks to increase their equity base to 8 per cent of assets.

He told an audience of bankers that forcing banks to increase their equity so rapidly would "end up increasing business failures and non-performing assets".

GOVERNMENT SECURITIES FIRST FEDERAL BUDGET SURPLUS IN NEARLY 30 YEARS LEADS TO CUT IN PUBLIC DEBT INSTRUMENTS

US Treasury to scrap some debt issues

By Gerard Baker in Washington

The US Treasury is to change radically its issuance of government securities for the foreseeable future, as the federal budget moves into surplus for the first time in nearly 30 years.

The Treasury announced yesterday it was scrapping issuance of a whole class of public debt instruments – the 3-year Treasury note – and cutting the frequency of 5-year bond issues to every quarter from every month.

The announcement was the most tangible symbol yet of the arrival of the era of federal budget surpluses after 29 years of deficits.

"This is a very happy challenge, to be addressing ourselves to balanced budgets and an environment of fiscal discipline," said Gary Gensler, the Treasury's assistant secretary for financial markets. The changes "should be a strategy for some time."

Scrapping entire issues is relatively rare, officials said. The Treasury discontinued 20-year bonds in 1986, 4-year notes in 1991 and 7-year notes in 1993. For the last year, it has been reducing its issuance of shorter-term bills, in response to the disappearing deficit.

Treasury bonds traded higher after the announcement and were further buoyed by news that next week's refinancing would be smaller than the market expected. In afternoon trading, the benchmark 30-year Treasury bond was up $\frac{5}{32}$ at 102½, yielding 5.944 per cent.

But markets had long been expecting an announcement about how the administration would deal with new surpluses, and analysts said the main effect of yesterday's decision would be to alter the relative attractiveness of securities of different maturities.

It seems certain that federal finances for the current year will produce a substantial surplus. Earlier this week, the politically independent Congressional Budget Office upped its previous estimate of a small surplus to one of up to $60bn.

Tax revenues have poured in as a result of rapid economic growth, while inflation has been consistently lower than forecast, reducing expenditures. This period of surpluses is expected to last some time. Even on conservative estimates for economic growth, the administration believes a cumulative surplus of at least $500bn is likely over the next ten years.

In opting for the reduction in debt issuance, the Treasury rejected an alternative method of handling the projected budget surpluses – buybacks of securities in circulation. Advisers to the Treasury from the private sector, in a separate report, said they had concluded "buybacks would not be useful... at this time".

Separately, the Commerce Department reported yesterday that factory orders rose by 0.3 per cent in March, a modest bounceback from a sharp fall the month before.

Salmon for the high jump as West Coast weather changes

Christopher Parkes reports that climatic variations may be the greatest threat to the survival of the king of fish

Federal proposals to declare vast expanses of western US coast and rivers a safe haven for endangered salmon have cast industry, urban planners, power utilities, farmers, loggers and fishermen in the role of bad guys, wreckers of the environment.

But evidence is mounting that the environment itself may be counted high in the hierarchy of villains responsible for the fate of the king of fish in an area that stretches between Seattle and San Francisco, embraces the Cascade Mountains and California's Central Valley, and reaches far into the Pacific Ocean.

Meteorologists at the University of Washington (UW) believe long-term variations in rainfall and sea water temperatures, both crucial to species which live in both river and ocean, have had a substantial impact on salmon and steelhead trout stock.

The fluctuations, they say, are caused by a phenomenon they call the Pacific Decadal Oscillation, a macro-climatic tendency of which the current El Niño is merely a "small" manifestation. In bouts lasting 20 years and more, it alternately warms and cools the ocean, dries and drenches the salmon runs.

The PDO has been in a "positive" phase since 1977. North-western winters have commonly been drier and the ocean warmer than between 1947 and 1976. Conditions similar to today's prevailed from the 1920s to the mid-1949s, another period when salmon runs were poor.

The research supports earlier local observations, made during the 1982-83 El Niño episode, when survival rates of coho salmon leaving the central California coast fell almost 60 per cent and fecundity among those returning to spawn fell 25 per cent.

Empirical evidence, courtesy of the fishing industry, tends to support the notion that the salmon runs may move up and down the coast in phase with the fluctuations of the PDO. Alaskan boats have enjoyed bumper catches for years, with a record 123m fish taken in 1997, while their southerly competitors have suffered.

Fishermen who once harvested 750,000 chinook salmon a year in the Puget Sound now routinely net fewer than 20,000. Salmon runs in the whole Columbia basin, reckoned at about 16m wild fish last century, have dwindled to less than 2.5m, according to the Army Corps of Engineers. Of those, 80 per cent are hatchery-reared.

UW researchers believe the climate should start to oscillate in favour of the west coast fish within 10 years. But, says Nathan Mantua, one of the university team, no-one can say with any certainty until forecasting techniques improve.

That will take at least five years, too long for the fish and the federal authorities poised to extend their environmental protection policies, formerly confined mainly to public lands, to sprawling urban and agricultural areas in four states.

The reverberations, which will affect every aspect of the economy, will be felt far in the hinterland, among plains grain and Idaho potato growers who depend on the great rivers for cheap barge transport.

Seattle and the Puget Sound area – home to Microsoft, the US aerospace industry and 4m people – is only a part of a 13-county chunk of Washington put on the alert.

Chinook salmon jumping in California AP

Oregon's Willamette Valley, including Portland, which accounts for 70 per cent of the state's economic activity and 75 per cent of its population, also faces dramatic change.

With a year before Washington formally declares more than a dozen fish runs endangered and throws the regulatory book at them, those representing the economic interests of a fast-growing region are scrambling for their own solutions.

The alternative to a home-grown conservation and restoration effort is federal edict, and no-one appears to want that. "When you talk about the Endangered Species Act, you talk rules," said Peter Test, an official at the Oregon Farm Bureau. "You talk about telling people what they can do and what they can't do. People lose control of their lives."

Plans now in the drafting stage include state and federal purchases of waterside land, reduced industrial and residential development to limit demand for water and the removal of dams to restore river flows.

The bill for basic improvements to the public purse in Oregon alone has been estimated at almost $200m, but with about 80 per cent of the most affected area in private hands, associated costs – including higher charges for water and power – could far exceed that.

The Columbia River barge shipping industry alone, with revenues of more than $400m, fears lowering or breaching dams would halt navigation in much of the river. The corollary is that it would be restored to the fish, most likely for ever, as long as the weather co-operates better than in the past.

US in Ukraine nuclear deal

The US and Ukraine yesterday signed a deal to allow the former Soviet republic to import technology to revamp its troubled nuclear industry, Reuters reports from Kiev.

"This agreement will be the cornerstone in the development of a strategic partnership between our countries," Boris Tarasyuk, Ukraine's foreign minister, said after the signing ceremony in the capital, Kiev.

The deal was made possible after Ukraine bowed to US pressure in March not to build turbines for Iran's planned Bushehr nuclear power plant. Russian companies have been contracted to build the $850m power station for Iran.

"The political and economic benefits that Ukraine gains from turning down the (Iran) project will be worth much more than the cash from selling two turbines," said Olexander Maydannyk for President Leonid Kuchma.

Mr Tarasyuk said Ukraine could now bring in western nuclear technologies which would enable the republic to modernise its five ageing nuclear power plants.

NEWS DIGEST

HUBBELL TAPES

Burton aid forced to quit after transcripts fiasco

Republicans yesterday sought to deflect attention away from fresh controversy over selective editing of prison conversations of a former associate of President Bill Clinton, by forcing the party aide responsible to resign. The problem arose after it emerged that transcripts of the tapes of Webster Hubbell, released last week by Dan Burton, chairman of the House government reform committee, were incomplete. The edited versions had appeared to show Mr Hubbell admitting he was covering up for Mr Clinton and his wife Hillary. The full tapes, which have since been released, are more ambiguous and contain a section in which Mr Hubbell explicitly clears Mrs Clinton of wrongdoing.

Acknowledging that the affair had not been properly handled, Mr Burton announced that David Bossie, the investigator on his staff who oversaw the editing of the audiotapes, had agreed to step down. **Mark Suzman, Washington**

SOCIAL SECURITY

Caracas wins IADB loan

The Venezuelan government is to sign today an agreement with the Inter-American Development Bank for a $350m loan and technical assistance worth $75m to help it launch a new social security system.

The social security institute, which has outstanding liabilities of $6bn, is to be phased out by December 31 1999, paving the way for privately managed pension and healthcare funds. The IADB loan is to help finance the transition phase. **Raymond Colitt, Caracas**

US-ITALIAN RELATIONS

Clinton aims to heal wounds

US President Bill Clinton greeted visiting Italian prime minister Romano Prodi yesterday with words aimed at healing diplomatic wounds caused by February's fatal ski-lift accident involving a US Marine jet in Italy.

At a White House ceremony opening an official visit by Mr Prodi, Mr Clinton praised Italy's hosting of American soldiers and said he had dispatched US troops from the Aviano air base in Italy to help rescue efforts after lethal rainstorms in southern Italy this week. **Reuters, Washington**

CANADIAN WATER EXPORTS

Company offers to drop plan

A Canadian company that triggered an international controversy with a proposal to sell Great Lakes water to Asia says it will drop the plan if the federal government, Ontario and the US agree to ban all water exports.

Nova Group said its idea to help Asian countries in need of fresh water had turned into an international incident and that was not its intention. The Ontario government granted Nova a permit to sell up to 10m litres of water a day over five years from Lake Superior but the plan triggered long-standing Canadian fears that, once bulk water exports had been permitted, Canada would be unable to block larger sales to the US. **Edward Alden, Toronto**

FINANCIAL SERVICES MINISTER SAYS NUMBER OF PROSECUTIONS TOO SMALL TO REFLECT FULL INCIDENCE OF INSIDER DEALING

Tougher powers for City watchdog

By George Graham, Banking Editor

The UK's new financial services watchdog is to get sweeping powers to fine traders and investors for insider dealing or market manipulation.

Alistair Darling, a Treasury minister, said the government had decided to give the Financial Services Authority the power to impose civil penalties for insider dealing, as well as prosecute criminal charges.

"There will be no limit on fines, so serious abuse will get a serious fine," he said.

A single tribunal, independent of the FSA, will be set up to hear appeals against the authority's decisions.

The London Stock Exchange will also get the power to fine companies or their directors for breaches of its listing rules, such as failing to disclose information to investors.

The exchange's only sanction at the moment, beyond a rebuke, is to end a company's listing. This disadvantages its investors.

Mr Darling said there had been only 17 prosecutions for insider dealing since 1990 and only 12 of these had been successful. "I don't think anyone can seriously maintain that 17 is the number of times insider dealing has occurred in the last eight years," he said.

Criminal charges of insider dealing have to be proved beyond reasonable doubt – and will still be pursued in some cases – but for civil penalties the FSA will be able to act on the balance of evidence.

The authority will consult with market participants on a new code of conduct, intended to define offences such as misusing privileged information or ramping up a share price through false trades.

The legislation will give the FSA the powers currently wielded by self-regulating organisations, such as the Securities and Futures Authority or the Investment Management Regulatory Organisation.

Their power is derived from contractual agreements with their members – they cannot fine non-members. Once the fining power is put on a statutory footing, however, it must comply with the European Convention on Human Rights.

George Staple – a partner at Clifford Chance, the law firm, and former director of the Serious Fraud Office – said the powers given to the FSA appeared to be sweeping.

The office of Tony Blair, the prime minister, yesterday dismissed reports that the government was planning legislation to curb executive pay, David Wighton writes. The reports followed comments from Lord Haskel, a government whip, which officials said merely restated the position outlined in March. Lord Haskel said the government supported the recommendation of the Hampel committee that companies put the annual report of their remuneration committees to a vote of shareholders. If companies did not adopt such practice, Lord Haskel said the government had not ruled out legislation.

Republicans try to reassure gunmen before special vote

Sinn Féin meets on Saturday to decide whether to accept the Northern Ireland peace deal. **John Murray Brown** reports

British soldiers on patrol in west Belfast yesterday before the arrival of Tony Blair and John Major, who will campaign together for a Yes vote to the peace agreement for the region AP

The British government has been attacked by anti-nationalist politicians in Northern Ireland and their allies in the opposition Conservative party for sanctioning the transfer of six Irish Republican Army prisoners from British jails to a prison in the Republic of Ireland.

The group includes the so-called Balcombe Street Four, jailed in London 23 years ago after a bombing campaign on the British mainland.

The move follows last month's decision by the government of the republic to release several prisoners.

Both decisions were taken with one objective in mind – to encourage republicans to back the multi-party peace accord which Sinn Féin, the political wing of the IRA, is to debate at a special party conference on Saturday.

Less than three years ago the party was justifying the use of violence to end British rule. Now it is taking a different path.

The news this week that the Irish National Liberation Army – a small breakaway republican group linked to the Irish Republican Socialist party – may be considering a ceasefire is also significant.

The INLA has so far opposed the IRA's truce. It is a sure measure of the widespread support for the peace deal in nationalist circles that the "wild men" of republicanism, as INLA members are sometimes described, now judge the political climate not conducive to a continued terror campaign.

Another signal was given in Monday's Irish Times newspaper when Niall O'Dowd – publisher of New York's Irish Voice – backed the deal. Irish government officials say Mr O'Dowd, a close friend of Gerry Adams, the Sinn Féin president, has often been used as a mouthpiece for Sinn Féin.

Behind the scenes, Mr Adams has been squaring the deal with the IRA. Security officials say there was a meeting last weekend of the army executive – which has powers to extend the ceasefire.

The timing of the hardline IRA statement ruling out any arms handover in An Phoblacht/Republican News, Sinn Féin's newspaper, is now seen as an attempt to reassure IRA militants that the party would not betray its core principles at Saturday's conference.

Significantly, the IRA statement encouraged republicans to support the Sinn Féin leadership.

Taking seats in a British-run parliament in Northern Ireland will be difficult for republicans. It would represent *de facto* recognition of Northern Ireland as a separate political entity.

But government officials expect the party to give the necessary two-thirds backing for such a stance – probably under a motion proposed by a senior Sinn Féin figure, again to reassure hardliners this is not a sell-out.

Some republicans have defied the leadership and attacked the deal – most notably the 32-county sovereignty committee headed by a sister of Bobby Sands, the IRA hunger striker.

If Saturday's conference is to approve the deal without significant dissent, it would be a tribute to the standing of Mr Adams, and to his courting of his grassroots.

Viacom threatens to uproot European head office

By Cathy Newman and John Gapper

Viacom, the owner of television channels such as MTV and Nickelodeon, is threatening to move its European television headquarters out of the UK if regulators press ahead with planned changes to how cable and satellite channels are sold.

Viacom, which employs 1,000 people in London on what are among the best known pay television channels, will also meet the Office of Fair Trading and Oftel, the telecommunications watchdog, to protest at the Independent Television Commission's proposals.

The move adds weight to a growing revolt by pay television companies against the ITC's proposals to prohibit agreements under which cable and satellite broadcasters promise to carry channels to at least 80 per cent of subscribers.

Viacom says it will consider moving its television base to another European country if the ITC does not amend its plans. It believes it could then distribute its channels in the UK without complying with ITC regulations.

Other channel providers – including Flextech, the pay-TV company and MirrorTel, owner of Live TV – have already turned their fire on the ITC. MirrorTel has threatened to take the watchdog to court over its proposals.

The ITC announced last month that it wanted to end channel providers' contracts with cable and satellite operators to allow customers to subscribe to fewer channels.

However, Viacom says this will lead to channels closing.

The ruling may affect whether Viacom channels are carried on British Digital Broadcasting, the pay television service. BDB is thought to be keen to carry channels such as MTV on a 15-channel service to be launched this autumn.

However, Viacom is thought to be considering an offer from British Sky Broadcasting that would give Viacom channels wide distribution. BSkyB is thought to want the Viacom channels to be withheld from the rival television service.

PENSIONS PHARMACEUTICALS GROUP MOVES $1.3BN AWAY FROM INDUSTRY'S BIGGEST MANAGERS

Zeneca to seek top-flight fund managers

By Jane Martinson, Investment Correspondent

Zeneca, the pharmaceuticals group, is to look for several "up and coming" fund managers after moving £800m ($1.3bn) of its £2bn pension scheme away from the industry's biggest managers.

The decision comes after Watson Wyatt, the UK's biggest pension fund consultant, signalled a move away from the traditional active balanced approach which has dominated the UK industry.

UK companies have tended to appoint a handful of managers to run big balanced portfolios, which give the individual manager discretion over all asset classes.

Others are expected to follow the move, though Zeneca is among the first of Watson's clients to publicly advocate this shift.

Zeneca's decision to put the £800m into an index-tracking fund for the first time heralds the change advocated by Watson for its biggest clients.

The company is also to follow Watson's advice in looking for a bigger number of smaller managers to look after its portfolio. The group aims to bring its total number of managers from five to about 12.

Ray Martin, head of pensions at Zeneca, said: "We will look for those with a good investment process although not necessarily a good track record." His comment overturns received investment practice in the UK.

The three companies which lost out under Zeneca's changes – Mercury Asset Management, Schroder Asset Management and PDFM – are the UK's three biggest pension fund managers.

The first two lost half of their funds under management for the group, or £300m each, after the balanced funds they managed seriously underperformed last year. The £600m managed by MAM underperformed by some 10 percentage points in the period.

PDFM, which has underperformed the industry benchmark for much longer than the other two, lost £50m from the UK equity fund it managed for Zeneca, to be left with £100m to manage.

Legal & General won the index tracking mandate for the group, which is mainly invested in bonds. JP Morgan will continue to run £500m for Zeneca in overseas equities after good performance last year.

● Companies with pension schemes worth a total of £70bn have warned that accounting reforms could increase pension costs and shift assets from equities to gilts (UK government bonds), Jim Kelly writes.

"This should give the Accounting Standards Board cause for concern," said Bob Senior, a partner at actuaries Bacon & Woodrow, which surveyed 37 finance directors among the FTSE 100 index of leading companies.

The survey will be seen as an opening shot in what could be a bitter debate over whether the UK should fall into line with international practice and start estimating pension costs using current market prices. The UK traditionally has taken an actuarial approach that values pensions over the long term and smoothes costs over a number of years. The standards board is due to publish a discussion paper on the subject in the next two weeks.

The International Accounting Standards Committee, which is trying to forge a global set of accounting standards, has backed a market value approach.

LONDON CITIZENS DECIDE IN A REFERENDUM TODAY IF THEY WANT AN ELECTED MAYOR

Hopefuls line up for capital job

By Nicholas Timmins and George Parker

The job does not exist yet, but there is no shortage of candidates. The prospect of becoming London's first elected mayor has produced a cascade of former MPs, media stars and self-publicists eager to take what will be one of the highest-profile jobs in British politics.

Londoners will vote today – during municipal elections – on whether to have a mayor and assembly. Every poll shows that, though the turnout may be low, they will say yes.

It is clear now, after initial doubts, that the job will be worth having. The mayor will have the biggest individual mandate of any UK politician, with an electorate of more than 5m. The mayor will be directly in charge of transport, a new London development agency, a new police authority, strategic planning and a new fire authority.

"There is no doubt the model is a strong mayor," says Tony Travers, head of the London government group at the London School of Economics. "More like the mayor of New York than of Paris or Berlin."

The direct budget he or she will control will be about a fifth of New York's. Little will come from council tax (municipal tax based on values of domestic property); the bulk will be from central government grant.

The mayor will also have to work with the capital's new assembly. But he or she will propose the budget and it will take a two-thirds majority of the 25-strong body to overturn it. "And a two-thirds majority is hard to assemble in any legislature," Mr Travers says.

Mr Travers, who has studied mayoral systems in the US and Europe, says the crucial issue in deciding a city's government is the personality and style of the mayor. "The first mayor will be able to decide whether he runs the city with a small, central core, setting the strategy and instructing people to do things and deliver – as Giuliani does in New York – or whether it will be run much more like a conventional local authority with traditional command structures, with much more diffuse power," he says.

It is an issue already worrying the parties. A poll in the Evening Standard, London's evening newspaper, indicates a couple of popular choices. One is Richard Branson, the Virgin chief, who seems to fancy the job but says he is probably too occupied with business. The other is leftwing MP Ken Livingstone, the last leader of the Greater London Council, the former Labour-dominated authority for the capital abolished by Margaret Thatcher's Conservative government in 1986.

Mr Blair has made clear that Mr Livingstone will not be allowed to be Labour's official candidate.

William Hague, leader of the opposition Conservatives, has similar problems. He hopes to halt the high-profile campaign of Lord Archer (the novelist Jeffrey Archer) to get the Conservative nomination. The party's selection process – voting by party activists – might well deliver this.

Another possible Labour candidate is Glenda Jackson, a transport minister, and former double-Oscar winning film actress.

Unease among big parties as local electors go to polls

Voters go to the polls today in 166 municipal elections in England and none of the main parties is particularly looking forward to the results, Nicholas Timmins writes. For the Conservatives, it is the first big test since their national election defeat just over a year ago. For the governing Labour party, the worry is that apathy and allegations of Labour sleaze and mismanagement in a few local authorities will mean that they will perform far less well than in the national poll. With only a third of seats contested in most authorities, few councils are likely to change hands. Much interest will focus on London, where all seats are up for grabs in the 32 boroughs.

Conservative hopes of reviving morale by regaining a toehold in some of the big city authorities outside London seem slim. In the cities, the battle is between Labour and the pro-European Liberal Democrat party – one fought with deep mutual antipathy despite the parties' relatively cordial relations nationally.

Lord Archer may be nominated by Conservative party activists

Investors scorn 'unjust' UBS pay-out proposal

By Philip Jeune in Jersey

The international investors who lost $10m in Jersey's biggest-ever fraud case say that the $23m set aside by UBS for compensation is "inadequate" and "unjust" and that $46m would be a fairer figure.

Nearly 90 investors lost money invested through Swiss-based investment manager Michael Marsh in currency deals carried out in Jersey by Robert Young through Cantrade Private Bank, a UBS subsidiary.

Mr Marsh claims that if the investors are to get a proper return the compensation offer must be doubled. Jersey is the largest of the Channel Islands between England and France.

Mr Young, an independent trader originally from Nottingham, England, reported making healthy profits for the investors when he was incurring big losses. His friend Alfred Williams, a former tax adviser and partner with Touche Ross's Nottingham, England, branch, produced documents purporting to audit the false trading figures, which at one point claimed profits of $16m.

Mr Young, 44, and Mr Williams, 49, were both found guilty in March in Jersey's Royal Court of making misleading, false or deceptive statements to investors and are being sentenced today.

Also to be sentenced today is Cantrade Private Bank. It avoided trial by pleading guilty in February to four charges of criminal recklessness by making misleading statements – the first time, it is understood, a leading European bank has admitted such offences.

In Geneva, Mr Marsh said the investors should receive a sum that equates to the profits they would have enjoyed if they had invested their money elsewhere.

"Based on a diversified basket of internationally accepted and unleveraged indices of US Treasury bonds, global corporate bonds and global equities they are owed $48m, not $23m."

The investors launched a civil action against Cantrade in the Jersey courts some years ago, but last November brought a separate "treble damages" action in New York.

In 1994, Jersey's finance and economics committee refused a request from the investors to undertake an investigation into Cantrade. This led to a separate civil action being brought against the committee.

Mr Marsh added: "Most investors want the fight to go to the bitter end through trial in New York because they are fed up with the bank's unethical attitude and fed up with the hostility shown by the Jersey government to victims of fraud."

A Cantrade spokesman confirmed yesterday that 16 of the investors had accepted compensation totalling $3.5m. He said the investors were getting between 110 and 130 per cent of their original investment and that the interest being paid was based on six-month deposit rates.

NEWS DIGEST

UNITED NATIONS EMBARGO

Officials face probe over arms sales to Sierra Leone

An independent inquiry is to be held into allegations that Foreign Office officials approved the supply of arms to Sierra Leone in breach of a UN embargo, the government announced yesterday. Robin Cook, the foreign secretary, made plain his anger that ministers had been kept in the dark by officials about an investigation by Customs & Excise officers. Tony Blair, the prime minister, said in the House of Commons that any ministers or officials found to have colluded in any breach of the embargo would be disciplined.

The Foreign Office confirmed it had told Customs two months ago that Sandline International, a UK company, had broken the UN embargo by arranging for the supply of arms from Bulgaria to local forces in Sierra Leone. Together with Nigerian-led peacekeeping troops, these forces restored Ahmed Tejan Kabbah, who had been ousted in a military coup in 1997, to the presidency in March this year. Sandline's lawyers have claimed that despite the embargo the company had Foreign Office approval. **Andrew Parker, London**

WD LANDESBANK'S EURO POLICY

Global launch for Thomas Cook

Thomas Cook, the travel agent, is launching a £25m ($42m) global service, which it claims to be the world's most comprehensive, as part of its plans to replace foreign exchange income likely to be lost when euro notes and coins are introduced in 2002. The company, an offshoot of Westdeutsche Landesbank, claims to be the UK's biggest supplier of leisure consumer foreign exchange. John Donaldson, managing director, is quoted in the company's annual report, published today, saying that Thomas Cook faces threats from the single European currency, which will "undoubtedly impact the foreign exchange business". Global Services includes facilities accessed by a telephone call to a centre in England. It is initially launched in English-speaking regions including North America, South Africa, Australia and the UK. By July the service will be available in 30 languages. Services include medical assistance, cash replacement, hotel and flight reservations and travel insurance. **Scheherazade Daneshkhu, London**

SCOTTISH PARLIAMENT

Plan to speed up changes

The government yesterday outlined plans to accelerate the creation of a parliament in Scotland as an opinion poll for the first time put the Scottish National party ahead of Labour in the battle to secure control of the assembly. The opposition Conservative party claimed that the proposals to allow the Scottish parliament to exercise its legislative powers from July next year – six months earlier than envisaged – was a panic response to the surge in support for the nationalists. They regard the parliament as a stage towards the re-establishment of an independent Scotland after more than 250 years of union with England. The SNP – delighted by its rating of 41 per cent in the Glasgow-based Herald newspaper, five points ahead of Labour – insisted it now had a realistic chance of forming the first administration. Donald Dewar, chief minister for Scotland in the UK government, said he took the poll seriously. **Andrew Parker, London**

CAMELOT LOTTERY CONSORTIUM

Anger over access to accounts

Camelot, the consortium which operates the National Lottery, yesterday reacted furiously to a government decision to allow the National Audit Office, the public spending watchdog, access to its books. The company said the decision would give the office unprecedented access to the accounts of a regulated private company. Chris Smith, chief culture minister, said he wanted to ensure complete transparency in the way Camelot accounts for the £5bn ($8.3bn) a year it raises through ticket sales, of which 28 per cent goes to "good causes". The members of Camelot are Cadbury Schweppes, the UK food and drink group; De La Rue, the security printers; Racal Electronics; and ICL, a UK offshoot of Fujitsu. **George Parker, London**

PASSIVE SMOKING CLAIM

Nurse seeks asthma damages

A nurse was forced to give up work when she developed asthma from passive smoking through her duties in a private nursing home, a court in Manchester, northern England, heard yesterday. Sylvia Sparrow is seeking damages from the home's then owners, claiming she became ill only after being forced to work in a part of the elderly people's home where there was a "smokers' corner". "Whether or not there is evidence of passive smoking being the cause of asthma in an adult is possibly a moot point," her lawyer said. "The diagnosis made was that this lady was probably predisposed constitutionally to asthma, which was symptomless and remained symptomless until she was exposed to the irritant of smoking in her daily work." Mrs Sparrow is claiming compensation for injury and loss of earnings. The company is defending the action, the first of its kind in England.

هكذا من الأصل

CINEMA REMAKE OF 'LOLITA'

Gagged by the New Suppression

Nigel Andrews regrets that Nabokov's classic tale is now artistically off-limits

Adrian Lyne's *Lolita* has been on the shelf so long that we expected it to emerge mantled with mildew or writhing with things unmentionable. For two years distributors wouldn't touch this new version of Nabokov's nympholepsy classic: they still won't in the US, where it will premier on cable TV. And outrage from the Daily Mail – where else? – greeted the British censor's own belated decision to give it an 18 certificate.

Surely this used to be a grown-up planet? As recently as 1963 when Stanley Kubrick opened his *Lolita*, filmmakers could dramatise the deeper, queasier sins of man and woman. That didn't mean they endorsed them. But today we are gagged by the New Suppression. Humbert Humbert's paedophilia – that word that sends Daily Mail readers stampeding to their smelling salts – is not just bad, it is artistically off-limits. And newspaper bosses have realised a happy lexical coincidence. As "proprietors", they can surely decree propriety?

LOLITA
Adrian Lyne

THE DESIGNATED MOURNER
David Hare

WILD MAN BLUES
Barbara Kopple

If Adrian Lyne's film is guilty, it is through too much propriety of its own. It apologises for its hero's sinfulness in a glib opening flashback – unrequited love for a girl at school – and then has Dominique Swain's Lolita swarming over him so ardently, so naughtily, that poor Jeremy Irons's Humbert seems an ambushed innocent.

Every heterosexual man in the audience will give him a free pardon. And every girl of Lolita's age will be too young to enter the cinema and protest at *her* portrayal.

As for Nabokov, he will perform *rotisserie* motions in his grave. He will turn and burn at the idea of his richly complex motivation – a girl who suffers as well as teases, a man who schemes as well as succumbs – simplified into another tale of St Jeremy the Erotic Martyr (see Malle's *Damage*).

The actors deserve better than their scripted roles. Swain's Lolita has a restive, believable spontaneity light-years ahead of Kubrick's Sue Lyon. And though Irons cannot manage Humbert/Nabokov's mischievously dandyish locution – his voice-overs are flat and prosy – he is wonderfully sad and funny in *extremis*. When screenwriter Stephen Schiff gives Lolita's unsuspecting mother (Melanie Griffith) a tacky *double entendre* – "Is she keeping you up?" she asks – Irons consecrates it with an unforgettable look of droll alarm.

Elsewhere *Lolita* has a glib sheen worthy of the director of *Flashdance* and *Fatal Attraction*. Did the light have to be *quite* so margarine-commercial golden? Did Ennio Morricone's music have to be *that* bland and wistful? And though the film honours the novel in demoting abductor Quilty to a devil-ex-machina role – rather than the character pentathlon Kubrick gave Peter Sellers – Frank Langella's performance is so good, so bleak, so darkly ranging that we want more. It is our first glimpse into the true comic *walpurgisnacht* that was Nabokov's book.

Offending propriety? Jeremy Irons and Dominique Swain in Adrian Lynne's 'Lolita'

★

I thought I would die watching *The Designated Mourner*, David Hare's film of Wallace Shawn's stage three-hander about love, totalitarianism and the treacheries of the artist class, at the Berlin Film Festival. It is a talk-feast without remission. The faces of Miranda Richardson, Mike Nichols and David de Keyser alternate in unsparing close-up while delivering long, complex, literary arias. Sometimes, like a drop of water to a prisoner, there is a lighting change.

I re-viewed it on video and – startling but true – found an almost different experience. Hare could and should have found a cinematic "way in" to the play, as Louis Malle did with another Shawn-work, *Uncle Vanya On 42nd St*. But on cassette it matters less. The film becomes a tactile text: you can dawdle, scrutinise or rewind to re-savour. It opens up new depths in the piece. While not making it *The Passion Of Joan Of Arc* – the greatest of all talking-heads films – it does allow the words and facial workings to haunt and resound. Filmmaker Mike Nichols, moonlighting as a mummer, is especially good. Hold out for his last scene.

★

Wild Man Blues is a documentary about Woody Allen's European jazz tour. This may sound frustrating, like following Oscar Wilde through a billiards tournament. But between the music sequences – New Orleans jazz played to charity-giving audiences from Rome to Paris – come the off-duty bits and they are very funny.

Allen and girlfriend Soon-Yi grouching through a hotel breakfast: "It's vulcanised," he complains of his teeth-testing Spanish omelette. Agoraphobic Allen enduring a gondola ride. Allen fielding a socialite's bombardment of compliments ("Don't stop," he says, "maybe I can help you out"). Allen back in New York introducing us to his father and mother. That she turns out to be the ultimate Jewish momma, beyond any Allen-devisable caricature, is the funniest irony of all. Summing up his childhood she shrugs querulously at him, "You did a lot of good things, but you never pursued them."

★

Elsewhere there are so many new films that I can only grab you by the collar and hasten you through them like a stressed tour guide.

Western (directed by Manuel Poirier). Endearingly shaggy two-and-a-quarter-hour French road comedy, with a Gallic Little and Large (Sergi Lopez, Sacha Bourdo) meeting and meandering through a tale of love, kleptomania and beleaguered masculinity. Bourdo resembles a midget Jean-Louis Barrault, Lopez a tall Afro-topped turnip. Together they establish a chemistry so improbably satisfying that it will probably generate a sequel.

Something To Believe In (directed by John Hough). More roadwork, this time uphill. Love blooms between dying girl Maria Pitillo and piano prodigy William McNamara on their journey towards a miraculous weeping Madonna. Can the Virgin save her? Or will Pitillo's faith be destroyed by Lalo Schifrin's music and Tom Conti's turn as a stage-Italian priest? Some charm, much scenery, more tinpot sentimentality.

Shall We Dance? (directed by Masayuki Suo). Japan's newest box-office smash is a kind of *Strictly Ballroom*: life, love and two-left-footedness in a dance school where a shy office worker finds his secret passion. Corny at times. But watch out for a comic madman called Naoto Takenaka, the best thing in a toupee since Connery's Bond.

Martha – Meet Frank, Daniel and Laurence (directed by Nick Hamm). Reader, meet the film that *Sliding Doors* might have been. Life's ironies propel a pretty American into the serial arms of three mutually unsuspecting friends. Amiable and funny if fitful. Rufus Sewell, formerly the dead face of screen costume drama, has a quirkily modern role at last and makes it count.

Amy Foster (directed by Beeban Kidron). Joseph Conrad, thou shouldst be living, or possibly suing. Abjectly adapting his sea's-edge story of doomed love between a Cornish girl and Ukrainian castaway, Kidron lets stars Rachel Weisz and Vincent Perez pile on the ham acting and phony accents. Avoid, and warn your friends.

Tonys ignore the stars

No New York theatre goer was terribly surprised earlier this week, when nominations for the 1998 Tony awards were announced, that most of the names mentioned were associated with either *Ragtime* or *The Lion King*. Between them those two musicals have 24 nominations, and although their battle for the Best Musical award will certainly be the ceremony's big event, their predominance provoked little interest.

As usual it was the omissions that had everyone talking, particularly those of Liam Neeson and Kevin Kline in the Best Actor in a Play category. New York critics had been as divided as those in London by Neeson's attempt to portray the hearty side of Oscar Wilde in David Hare's *The Judas Kiss*, and Kline's performance in the title role of Chekhov's *Ivanov* had an equally mixed response, but the shortage of household names among the nominees does not augur well for the television ratings potential of the awards telecast, which will be held on June 7 at Radio City Music Hall.

On the other hand, Kline may be persuaded to be a presenter, and Neeson is sure to show up to cheer on his wife, Natasha Richardson, who is the favourite in the Best Actress in a Musical category, for the smash hit revival of *Cabaret*, which received 10 nominations.

If the Tony telecast is unable to match the Oscars in star power, at least it has not turned into a fashion parade. The focus is clearly on the competing artists, and in several areas it will be quite a race. In the Best Actor in a Play category, Anthony La Paglia gives a devastating performance as a troubled Brooklyn dock worker in the revival of Arthur Miller's *A View from the Bridge*, but John Leguizamo injects similarly intense bravura into his autobiographical one-man show, *Freak*.

La Paglia's co-star, Allison Janney, and Geraldine McEwan, in the well-received London transfer of Ionesco's *The Chairs*, may have seemed the Best Actress in a Play front runners just a few weeks ago, but now that Martin McDonagh's *The Beauty Queen of Leenane* has moved from the Atlantic Theatre to Broadway, Marie Mullen should not be counted out.

***Beauty Queen* and *The Chairs* each received six nominations, the most of any non-musical. The McDonagh play and Yasmina Reza's *Art* will compete for Best Play, alongside *Freak* and David Henry Hwang's *Golden Child*. *Beauty Queen* is the favourite of Broadway analysts, *Freak* is beloved by young audiences, and *Golden Child* may be the choice of everyone who wants well-written work to find a home on mega-musical-heavy Broadway.**

Brendan Lemon

Adolescent angst whipped up at the disco again

THEATRE

ALASTAIR MACAULAY

Saturday Night Fever
London Palladium

The new stage musical of *Saturday Night Fever* is good harmless fun, and very appealing. Sure, the 1977 Travolta movie was something else; it was certainly not a musical – despite its disco dancing – and certainly not harmless. The success of the *Saturday Night Fever* musical lies precisely in the degree to which it does change the original. Here the characters actually sing the Bee Gees songs, and dance most of them; and it is the songs that carry the show, over the story's tales of adolescent angst.

The ending, in particular, ought to be ludicrous. Stephanie and Tony agree to try being just friends – their dialogue is surprisingly shrewd, with Stephanie asking him if he even knows how to be friends with a girl – and then they switch gears into "How Deep Is Your Love". Lurve, lurve, lurve: the usual old panacea. But when the curtain-calls turn into 10 more minutes of high-energy dancing for the whole company, you feel the churning motor energy of adolescent neurosis.

Adolescence is, after all, the central axis of *Saturday Night Fever*. At one pole lies the lyrical/aggressive control of disco dancing; at the other, lies the mixed-up perplexity and anguish of adolescence, which now and then is whipped up into real hysteria. In the *Saturday Night Fever* musical – as in the movie – it is Tony and his partner Stephanie who best represent the story's disco side; and it is Tony's nerdish comrade, Bobby C, who best represents its confusion and hysteria.

Bobby C gets his girlfriend pregnant; is told by her and his parents that he must marry her; is too much taken for granted by his pals; tries to outgo them in the daredevil games they play on Brooklyn Bridge; falls to his death. In this version, needless to say, he sings a couple of songs en route. It works, because Simon Greiff's performance as Bobby C is so good: his anxiety to please and to keep up with the gang is already feverish at the start, and he grows only more anxious and helpless. A perfectly judged interpretation.

The disco element doesn't quite catch the galvanising impact of the movie, but it does catch the general high-voltage throbbing lyricism that disco had in the late 1970s. No surprise, this: the show's director/choreographer is Arlene Philips, who rose to fame on the original disco wave at that time. The full charge of disco style is best caught in the "It's My Neighbourhood" ensemble. Here the vigour of pelvis and thigh is seen strutting with fierce rhythmic precision.

Elsewhere the dancers, though they gyrate those pelvises in good post-Elvis style, don't catch the force of the Travolta strut. Adam Garcia, as Tony, has a completely rock/disco mentality. Indeed, he is a better dancer here than he was in *Tap Dogs*.

He is also a good singer and a very decent actor; you feel that his Tony is part-thug, part-gent, and his soft/sweet centre takes you by surprise. And his occasional facial resemblance to Travolta will do him no harm.

Anita Louise Combe as Stephanie also sings very well; her dancing is a little more coarse-grained than is quite appropriate. The best dancing of all is from Sam Mcavoy (as Nicky) amid the "Jive Talkin'" ensemble.

The sets, by Robin Wagner, are a spectacular assortment of New York exteriors and interiors; and Andrew Bridge's lighting brings back days of Studio 54. Although Andy Edwards's costumes remind you of the more absurd face of the 1970s – and although the whole show tends to be callow and too bright – the sheer exuberance of this *Saturday Night Fever* proves insidious.

Exuberant fun: Adam Garcia as Tony — Alastair Muir

INTERNATIONAL Arts Guide

BARCELONA

EXHIBITION
Fundació Joan Miró
Tel: 34-3-329 1908
www.bcn.fjmiro.es
Private negatives, public fictions: 100 photographs from the collection of the Musée National d'Art Moderne in Paris. Includes works by Robert Doisneau, Dora Maar and Man Ray; from today until Jul 12

BASLE

EXHIBITION
Kunstmuseum
Tel: 41-61-271 0828
www.kunstmuseumbasel.ch
Andy Warhol: Drawings 1942-1987. Around 230 works by the American pop artist, most of them on loan from the Andy Warhol Museum in Pittsburgh and the Warhol Foundation in New York; to Jul 19

BERLIN

DANCE
Deutsche Oper
Tel: 49-30-34384-01
Deutsche Oper Ballet: triple bill of works by Kylián, Bigonzetti and Forsythe; May 8, 9, 10

BRIGHTON

THEATRE
Brighton Festival
Tel: 44-1273-685 861
The Cherry Orchard: by Chekhov. Rimas Tuminas directs a production by the Small Theatre of Vilnius, Lithuania. With English subtitles; Gardner Arts Centre, University of Sussex; May 7, 8, 9

BRUSSELS

OPERA
La Monnaie
Tel: 32-2-229 1211
Il Ritorno d'Ulisse: by Monteverdi. New production conducted by Philippe Pierlot in a staging by William Kentridge. With the Handspring Puppet Company, at the Lunatheater; May 9, 10, 12

CHICAGO

CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
Chicago Symphony Orchestra: conducted by Mark Wigglesworth in works by Debussy, Mozart, Berg and Sibelius. With soprano Christine Schäfer; May 7, 8, 9

EXHIBITION
Art Institute Of Chicago
Tel: 1-312-443 3600
www.artic.edu
Baule: African Art/Western Eyes. This first ever major museum show of Baule art comprises around 125 works, ranging from wooden sculptures and masks to pottery, jewellery, textiles, and tools; ends on Sunday

EDINBURGH

EXHIBITION
Scottish National Gallery of Modern Art
Tel: 44-131-624 6200
William MacTaggart (1903-1981): retrospective of the Edinburgh modernist. Includes around 50 paintings, watercolours and drawings, the majority borrowed from private collections and seldom exhibited; ends on Sunday

GLASGOW

OPERA
Scottish Opera, Theatre Royal
Tel: 44-141-332 9000
The Queen of Spades: by Tchaikovsky. Conducted by Richard Armstrong in a staging by Yannis Kokkos; May 9, 12

HELSINKI

OPERA
Finnish National Opera
Tel: 358-9-4030 2211
The Magic Flute: by Mozart. New production by Swedish director Etienne Glaser, designed by Peter Tillberg. Conducted by Mikko Franck; May 7

LAUSANNE

OPERA
Opéra de Lausanne, Théâtre Municipal
Tel: 41-21-310 1600
Il Matrimonio segreto: by Cimarosa. Conducted by Jonathan Darlington in a staging by Alain Marcel. Cast includes Alison Hagley; May 8, 10, 12

LISBON

DANCE
100 Days Festival, Expo '98
Pina Bausch: specially commissioned new work; Main Auditorium, Centro Cultural de Belém; May 11, 12

LONDON

CONCERTS
Royal Festival Hall
Tel: 44-171-960 4242
Barenboim Beethoven Cycle: series of six concerts, with Barenboim conducting the nine Symphonies and directing the five Piano Concertos from the keyboard. With the Staatskapelle Berlin, the London Symphony Chorus and soloists tba; May 7

EXHIBITION
National Gallery
Tel: 44-171-839 3321
Masters of Light: Dutch Painting from Utrecht in the Golden Age. Brings together 74 works produced by painters working in the city of Utrecht in the first half of the 17th century. Previously seen in San Francisco and Baltimore; from today until Aug 2

LOS ANGELES

OPERA
L.A. Opera, Dorothy Chandler Pavilion
Tel: 1-213-972 8001
www.laopera.org
Il Trovatore: by Verdi. Conducted by Gabriele Ferro in a staging by Stephen Lawless. Cast includes Vladimir Bogachov; May 8

MILAN

OPERA
Teatro alla Scala
Tel: 39-2-88791
www.lascala.milano.it
Der Freischütz: by Weber. Conducted by Donald Runnicles in a staging by Pier'Alli, with a cast including Kim Begley and Nancy Gustafson; May 7, 9, 12

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● David Helfgott: Rachmaninov's Piano Concerto No. 3. With the Munich Symphoniker, conducted by Jeanpierre Faber; May 8
● Die Schöpfung: by Joseph Haydn. Concert performance conducted by Hayko Siemens; May 9
● Milan Symphony Orchestra: conducted by Alan Francis in works by Mozart, Bruch and Schubert. With pianists Ferhan and Ferzan Onder, and violin soloist Anton Barachowsky; May 7

NEW YORK

CONCERTS
Lincoln Center
Tel: 1-212-721 6500
www.lincolncenter.org
New York Philharmonic: conducted by Leonard Slatkin in works by Fine, Mozart and Dukas. With piano soloist Alicia de Larrocha; Avery Fisher Hall; May 7, 8, 9, 12

PARIS

CONCERTS
Théâtre des Champs Elysées
Tel: 33-1-49525050
Cyril Huvé: recital by the pianist of works by Brahms; May 11

EXHIBITION
Musée du Louvre
Tel: 33-1-4020 5151
www.louvre.fr
La Collection Lemme: 17th and 18th century Italian art. Exhibition to mark the gift to the Louvre of 20 paintings and a sculpture. The 130 paintings on display include religious and mythological subjects and portraits; to May 11

SAN FRANCISCO

CONCERTS
Davies Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
San Francisco Symphony Orchestra: conducted by Peter Maxwell Davies in the world premiere of his own new work, A Reel of Seven Fishermen. The programme is completed by works by Haydn and Shostakovich. With cello soloist Lynn Harrell; May 7, 8, 9

STOCKHOLM

CONCERTS
Königlichen Oper
Tel: 46-8-248 240
Deutsche Oper Orchestra: conducted by Jiri Kout in works by Weber and Dvořák; May 10

OPERA
Königlichen Oper
Tel: 46-8-248 240
Deutsche Oper: Tannhäser, by Wagner. Conducted by Jiri Kout in a staging by Götz Friedrich; May 7, 9, 12

WASHINGTON

EXHIBITION
National Gallery of Art
Tel: 1-202-737 4215
www.nga.gov
Mark Rothko: major retrospective of the American abstract artist, including loans from Europe and Japan; to Aug 16, then travelling to New York and Paris

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:
06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

Take one before bedtime

Clive Cookson and **Daniel Green** look behind the hype surrounding the world's fastest-selling drug ever

Doctors and journalists in the US are racing to see who can write the word "Viagra" most frequently.

The number of prescriptions for Viagra, Pfizer's impotence drug, reached 208,000 in the week to April 24 – just its third week on sale – according to IMS, the healthcare information company. That makes it the fastest selling new drug in history, outstripping even Prozac, the anti-depressant launched in 1988.

The demand is being fuelled by media hype that has also reached unprecedented levels. It is hard to avoid stories about the first pill to treat a sexual problem that, by some estimates, affects almost half of men over the age of 40. Every television and radio chat show is interviewing satisfied consumers – putting an instant end to the long-held taboo on men talking about impotence in public. And of course internet sites are buzzing with advice about getting hold of the precious pills, which are supposed to be available only on prescription.

Among the blizzard of comment, two themes stand out. First, that Viagra ushers in a new era of "lifestyle" drugs. Second, that it – and drugs like it – will be gold mines, transforming the companies that make them. Well, up to a point.

The favourite argument among commentators is that Viagra represents the start of a new wave of medicines taken by people who are not seriously ill in an attempt to improve their quality of life. Although Viagra is licensed in the US for treating "erectile dysfunction", a recognised medical condition, there is already plenty of anecdotal evidence to show that it enables normally potent men to improve their sexual performance. Trials are also under way to see whether it can improve the sexual responsiveness of women; initial results are encouraging.

But lifestyle medicines are not new. Eli Lilly's Prozac is perhaps the best-known. Prozac and similar antidepressants are widely used to enhance the mood of people who are feeling down or unhappy but not clinically depressed.

Since the 1970s, indeed, a group of drugs called beta-blockers – designed for heart patients – has been used by concert musicians, television presenters and other public performers to reduce nervousness. They have been banned in sports that need a steady hand.

It is true that lifestyle medicines may be set for greater popularity now that the generation that discovered recreational drugs in the 1960s is beginning to *creak in the limbs*. The baby-boomers, as they are known in the US, have the economic and social power to buy legal drugs to help them along a little.

But developing safe products for them will not be easy, despite the rapid advance of pharmaceutical research. For example, a safe and effective slimming pill is near the top of many people's wish list. Yet two of the most promising diet drugs, Redux and Pondimin, had to be withdrawn last year when evidence emerged unexpectedly that they damaged users' heart valves.

Another type of drug in development that could become a popular lifestyle medicine is the memory enhancer, designed to rescue the failing brains of Alzheimer's patients. If this works without significant side effects, there is bound to be a huge demand for it as a "smart drug" for students.

Other lifestyle candidates include fast-acting sleeping pills that do not disrupt normal sleep patterns and anti-wrinkling creams to rejuvenate ageing skin.

On the whole, mainstream pharmaceutical companies are reluctant to be seen to be developing lifestyle medicines. The ethos of the industry – and its regulators – is to satisfy *medical* needs. So Pfizer has made strenuous efforts to prevent people describing Viagra as an aphrodisiac.

Whether you regard a drug that enhances sexual performance as an aphrodisiac is partly a matter of semantics. Pfizer says that Viagra requires sexual stimulation to work – but the very fact of taking a potency pill will give many men a mental stimulus. Middle-aged men have given testimonials to Viagra's ability to awaken long-dormant sexual feelings.

Viagra works by blocking an enzyme called phosphodiesterase type 5 (PDE5).

'This is unlike any other drug in terms of its build-up'

This action facilitates the flow of blood into the penis, producing an erection. It has been tested in clinical trials on 4,500 men. One tablet, after about an hour, gave stronger and/or longer lasting erections to about 80 per cent of participants.

Inevitably, as with any effective drug, there are side-effects. Pfizer reports a wide range of "adverse events" from the clinical trials. These are "generally transient and mild to moderate in nature", the company says. The most frequent are headache (suffered by 16 per cent of Viagra takers and 4 per cent of those who took placebo pills) and flushing (10 per cent and 1 per cent respectively).

One strange effect (which would not have surprised those Victorian moralists who warned that too much sex made you blind) is abnormal vision; 3 per cent of Viagra takers saw unusual coloured tinges, increased sensitivity to light or blurred shapes.

Pfizer will be fortunate indeed if Viagra does not have other side-effects that are too rare to show up in clinical trials but will make themselves felt when millions of people are taking the drug. If that were to happen, the company would be vulnerable to high-profile lawsuits such as those that hit Eli Lilly over Prozac.

For the moment, however, everyone is looking on the bright side. With new prescriptions running at almost 1m a month, Viagra is not only the most successful new drug, it also outstrips any established bestseller. Prilosec, the ulcer drug that is the best selling medicine in the US, is attracting less than 700,000 new prescriptions a month. Lipitor, the cholesterol-lowering medicine which was the previous record-selling new drug, is now making about 500,000 new prescriptions.

On this kind of growth, it is easy to make extravagant sales forecasts. If 10m men take one $10 Viagra pill 50 times a year – a modest assumption given the level of impotence – annual sales would reach $5bn in the US alone. By comparison, US sales of Losec were $2.3bn in 1997.

"This is unlike any other drug in terms of its build-up," says Kevin Scotcher, pharmaceutical analyst at BT Alex Brown. "People are now waiting to see whether these astronomical numbers can be sustained."

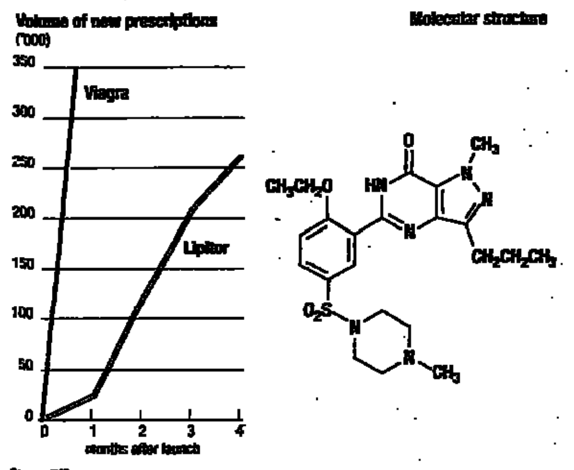
But an important influence on future sales will be the policy adopted by healthcare providers over paying for Viagra prescriptions. Insurers in the US are still working out what to do. Some have decided provisionally to pay for Viagra if the patient has a doctor's certificate for erectile dysfunction – but only for a reasonable number of pills, typically 10 a month at a retail price of $10 each.

According to IMS, however, "this drug will be successful regardless of reimbursement decisions". The evidence shows that, while 24 per cent of all prescriptions for US drugs are paid for by the patient, the figure so far for Viagra is about half.

The main factors that could hit Viagra's growth are unexpectedly serious side-effects and the emergence of superior competitors. Pfizer researchers discovered Viagra's anti-impotence application by accident; its active ingredient, sildenafil, was originally developed as a heart drug until early volunteers reported its sexual effects. Researchers in several pharmaceutical companies are already working to find new molecules that are more effective than sildenafil, with fewer side-effects.

Meanwhile, Viagra looks as if it will go down in history as the drug that made ageing baby-boomers feel young again. Indeed, if its popularity is sustained, it could soon lead to a baby boom all of its own.

Viagra: instant best seller



Source: IMS

LETTERS TO THE EDITOR

NGOs were not alone in mounting opposition to investment treaty

From Mr Charles Arden-Clarke.

Sir, The suspension of negotiations on the multilateral agreement on investment is not solely an achievement of the non-government organisation networks that Guy de Jonquières cites in his article ("Network guerrillas", April 30). Government ministries other than trade or finance and parliaments had a crucial role, as they analysed and reacted to the implications of the treaty. For example, the European parliament voted against accepting the MAI in its current form by a margin of 437 to eight. This cannot be a product of NGO perceptions and actions alone.

The reasons for this can be found in two quotes from that same article. The trade diplomat reflecting the "need to rethink our approach to international economic and trade negotiations" will have to do so precisely because "trade liberalisation impinges far more directly than ever on ordinary people's lives ...". It also impinges far more directly on the policymaking territories of other government ministries, such as environment, health, development co-operation, etc. This is exemplified by the formal environmental assessment of the MAI that has been initiated by the OECD.

Ultimately, what the MAI experience demonstrates is the need for earlier and deeper integration between all policy areas in our increasingly complex and interconnected world. This integration has to happen at both national and international levels, including at meetings like the forthcoming World Trade Organisation ministerial meeting in Geneva. Liberalisation without integration, and more public accountability, is a recipe to build further on the "globalisation backlash" that Mr de Jonquières wrote about.

Charles Arden-Clarke,
head, trade and investment unit,
World Wide Fund for Nature International,
Avenue du Mont-Blanc,
1196 Gland, Switzerland

Formula for Cyprus already condemned

From Mr George Chrysaphinis.

Sir, Edward Mortimer's "new formula" for Cyprus amounts to everything that Turkey was hoping to achieve when it invaded in 1974 – that is, the establishment of an internationally recognised Turkish state in Cyprus ("Rethink on Cyprus", May 6). Such an outcome has been repeatedly condemned by UN resolutions over the past 24 years. Such resolutions declare the Turkish invasion illegal, demand the unilateral withdrawal of Turkish troops from Cyprus, recognise the Cyprus Republic as the only legal government for the whole of Cyprus, and the right of refugees to return to their homes.

These resolutions recognise that Cypriots' human rights are being violated by Turkey's invasion and continuing occupation. The EU should play a constructive role in Cyprus and strive for a solution that involves, as far as possible, the restitution of these rights. The EU has enormous leverage on Turkey but has displayed an exasperating lack of will-power when it comes to using it.

If Tony Blair, the UK prime minister, were to yield to Turkey's latest caprices (as Mr Mortimer suggests), it would be another act of great political cowardice. Europe needs true leadership, for the sake of Cyprus.

George Chrysaphinis,
2 Ellis Street,
POB 5282,
Nicosia,
Cyprus

Bit of a squeeze is the more likely outcome

From Mr Chris Quinlan.

Sir, In your leader, "Europe's leap of faith" (May 1), on the Emu summit you stated: "Price transparency will exert powerful downward pressure on costs."

While that may be the hope, strictly speaking shouldn't the final word have been "prices"? While I can see that price transparency will tend to "equalise" prices downwards, the effect on costs may not all be in the same direction.

Human nature being what it is, wage transparency will tend to equalise labour costs in an upward direction – and of course these are often a company's biggest area of expense.

So "Euro businesses" could find their margins being squeezed from both directions..

Chris Quinlan,
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FT INTERVIEW MADELEINE ALBRIGHT

Albright's trade offs

David Gardner and **Andrew Gowers** talk to the US secretary of state on the possibility of final status Arab-Israeli talks

Albright: 'the hope is that they will reconnect' Ashley Ashwood

Madeleine Albright says she has run out of metaphors to describe the state of the Middle East peace process she has just spent two long days in London trying to salvage. But not quite.

"Instead of glue it's been sandpaper" she says of the 1993 Oslo peace accords, a deliberately ambiguous framework for a partnership between Israel and the Palestinians. "The hope is that they will reconnect", she says, after her efforts this week to persuade Israeli prime minister Benjamin Netanyahu and Yassir Arafat, the Palestinian leader, to launch a final push for peace in Washington next Monday. That would require Israeli withdrawals from Arab land in the West Bank.

Mr Arafat has accepted the still unpublished American formula – "not an American plan", Mrs Albright emphasises, but "a collection of ideas based upon months of negotiating". Mr Netanyahu, initially set his face against the core US proposal of an Israeli withdrawal from a further 13 per cent of the West Bank in exchange for greater Palestinian efforts against Islamist terror. He has been given until this weekend to persuade his cabinet. No metaphors can obscure that this is tantamount to an ultimatum – and yesterday Mr Netanyahu declaimed that he would not bow to US pressure.

Is the US finally putting pressure on Israel? "It's not our policy". Mrs Albright told the FT yesterday. Yet she reiterated that the invitation to Washington depended on Israel's acceptance of the "American ideas", and that the US would have to "re-examine" its approach to the Middle East peace process otherwise. Mrs Albright is too disciplined a negotiator to say so, but the implication of such a re-examination is that the US would spell out in public why the process had broken down which would put intense diplomatic pressure on Israel.

She acknowledges Mr Netanyahu's difficulties. The Likud leader is allied with hardline nationalists, settlers and religious fundamentalists. But she judges "he is in a pretty strong position in his cabinet."

"He needs to persuade them of what we're all persuaded," Mrs Albright says: that while "Israel's security is obviously for Israel to decide upon, a nation is inherently much more secure if it can get along with people who are living cheek-by-jowl, as well as with its other [Arab] neighbours." Asked whether Mr Netanyahu's subordination of all Israel's commitments to exchange land for peace to its desire for security is not merely an attempt to throw sand in the Oslo mechanism, the secretary of state says evenly she is not going to apportion blame.

But the security position now, she says, is that "there are mechanisms that have been put in place...which we believe are working better – and in fact Netanyahu has said they are working better. We have stated over and over again that 100 per cent effort [by Mr Arafat's police] may not always bring 100 per cent effect."

The problem now, in her view, has been the size of the redeployment, and "this is a matter of trying to see what is do-able." Mrs Albright will not confirm details of the US package. But, in essence, it seeks to wrap up the "interim" deal on withdrawal from the West Bank which the late Yitzhak Rabin signed and Mr Netanyahu endorsed 16 months ago, giving the Palestinians enough for "final status" talks to be launched next week.

The Palestinians have so far seen little from the peace process "so for them the interim steps were necessary to put flesh on the dreams", she says. The problem is that "Arafat believed that at some stage he had been promised 90 per cent of the West Bank and there are three [withdrawal] phases, so he figured 30 per cent a phase – and that is nowhere near what was ever in the Israeli mind".

If "final status" negotiations get underway next week, she acknowledges, "it's going to be very difficult; nobody underestimates that". These would cover the least tractable issues, including the the future of occupied Arab east Jerusalem, the Jewish settlements in the West bank, Israel's final borders and whether the Palestinians get an independent state. So far, the US has focused more on method than content, Mrs Albright says. Instead of "dividing everything up into little pieces...you put a lot of things on the table and you do a lot of trade-offs".

It is an open question whether she and President Bill Clinton have enough negotiating room, faced by a Congress in which Mr Netanyahu enjoys greater support than in the Israeli Knesset. As she says, "American foreign policy doesn't work if you don't have Congress as partner". "But there's a difference between partnership and trying to micromanage the policy."

On Iran and Iraq, she defends the policy of "dual containment". Europe and the Arab world would prefer engagement with Iran to US attempts to isolate the mullahs' regime, and by and large believe that Iraq has to be offered a real prospect of sanctions being lifted if it complies with UN weapons inspectors.

"If there is change in Iran," the secretary of state says, then "some of it has to do with the fact there was, or is containment" and that President Mohammed Khatami, the reformist president elected by a landslide last year, has sensed "that being contained is not in the best interests from his perspective of what should happen in Iran."

But the US has adopted "a different phraseology" in its approach to Iran, and "we are watching very carefully to see what is happening".

Iraq is another matter. "We are not the defendants," she says. "Saddam is." The UN weapons team looking for Saddam Hussein's remaining chemical and biological weapons capacity "continues to be the eyes and ears of the world and the key to the box for Iraq to get out of its container."

The 11th hour agreement with Mr Saddam reached in February by UN secretary general Kofi Annan to let Unscom do its job "has worked so far," Mrs Albright reckons. But the US is keeping its armada in the Gulf for now, and "if it doesn't work," she says, "we'll have to look at it again."

Some have argued that US Mid-East policy has been lopsided – too much friendship with Mr Netanyahu, not enough attention to Arab concerns. By next week we should know whether that is changing.

هدايا من الاهل

FINANCIAL TIMES
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Thursday May 7 1998

Agony sets in for Asia

Just when financial markets had apparently stabilised, disturbing reminders are emerging that the Asian crisis is far from over. Rioting has intensified in Indonesia. Unions are threatening strike action in South Korea. Thailand and the International Monetary Fund are discussing the need for reflation to counter a deeper than expected recession.

As the consequences of last year's financial collapse spread into the real economy, the crisis seems to have entered a new phase. There was always an expectation that 1998 would be exceptionally tough for Asian economies, but the pain is proving worse than many anticipated. The need to combat recession looks like becoming as urgent as the previous priority of restoring market confidence. This should give industrial country leaders food for thought at the forthcoming Birmingham summit.

There is no point in endorsing a cure that ends up killing the patient, and there is a real risk – as stock markets showed yesterday – that a sharper than expected economic contraction might again undermine financial stability. Equally there is limited room for relaxation, at least on the monetary front, until the process of adjustment is complete. Finding the right balance is becoming harder as Asian economies weaken.

Simply cutting interest rates is not the answer, since this could also jeopardise exchange rates. In any case, a shortage of credit is crippling Asia's private sector even more than high interest rates. Credit will only start to flow freely again when financial restructuring is complete and well-capitalised banks are willing to lend to sound customers.

Thailand is likely to receive initial attention in this debate because its continuing severe credit squeeze means that it has as yet received little reward for its determined – but still incomplete – efforts on banking reform.

The planned refinancing of government debt in the bond market may create more incentive for bank lending to the private sector. A more concerted effort to reschedule the overhang of private foreign debt might also help. Beyond that the most obvious room for manoeuvre is on the fiscal side, using funds borrowed abroad to boost investment by state enterprises.

Indonesia and South Korea have even less room to relax monetary policy. Although Indonesia is now formally back on track with the International Monetary Fund and has won praise for its tough and transparent monetary controls, it is only just starting to restructure its banks. A disturbing sense of lethargy surrounds its negotiations on rescheduling private sector debt. Korea, meanwhile, still faces difficult decisions on bank closures, mergers and sales, and there has been little progress in the urgent task of restructuring large conglomerates. Premature easing of credit could undermine that effort.

In all three countries, real recovery can only come once the financial sector is healthy. But the IMF and other multilateral institutions must watch to ensure the social pain is bearable. There is a case for further fiscal relaxation towards that end, but the world authorities should not be duped by recession into accepting prevarication on financial reform and recapitalisation. Delay now only means a longer and even deeper recession than the one now unfortunately under way.

Euro rates

By the beginning of next year, there will no longer be 11 separate interest rates for the 11 participants in economic and monetary union. But the uncertainty over exactly when and where interest rate convergence will take place is now taxing Europe's central bankers.

Firstly, when? This week's Spanish interest rate cut has sparked talk that convergence may take place more quickly than expected. And there has been speculation that the Bundesbank's dissatisfaction about the presidency of the European Central Bank might lead it to raise rates in protest.

There is no need for this to happen, as the Bundesbank well knows. The markets reacted with indifference to the ECB compromise. A rate rise now would accomplish nothing. Convergence would be best left for a month or two, when the political wrangling has died down.

Secondly, where? There is a growing consensus in the markets that short-term interest rates will converge at just under 4 per cent by the beginning of next year. The available economic data support this view.

Euroland output is growing at a healthy rate, with gross domestic product growing 3 per cent in the fourth quarter of 1997. But so far, there are few price pressures. Inflation is 1.2 per cent, and nominal wage growth is around 2.3 per cent. Meanwhile, the unemployment rate languishes at over 11 per cent. Monetary policy needs to be somewhat loose at this stage in the recovery. But the exceptionally low German repo rate of 3.3 per cent would be too low for the euroland economy as a whole, especially as the upswing gathers momentum.

This means that sometime this year the Bundesbank should raise rates, if only by 50 basis points or so – even though the relatively slow German recovery means that a rate rise may not be warranted on domestic grounds.

For most European countries, this would not mean an undesirable change in monetary conditions. The striking exception is Ireland. With economic growth of over 8 per cent, and asset markets booming, the last thing it needs is lower interest rates. But convergence must take place. The only answer for Ireland – and any other country in a markedly different cyclical position from the rest of Europe – is to use fiscal policy to offset the inappropriate monetary stance.

Nostra culpa

Kofi Annan, the United Nations secretary-general, can expect a cool reception when he arrives in Rwanda today. The country's present rulers have little reason to love an organisation that stood idly by while more than 800,000 people were massacred four years ago. Many blame Mr Annan personally, since he was head of UN peacekeeping at the time.

When the genocide started, on April 6, 1994, a UN force of about 2,500 men was on the spot, as part of a peace agreement negotiated the previous year. When 10 Belgian soldiers were killed, along with the prime minister they were protecting, the UN decided to reduce this force to a mere 270, rather than reinforce it and order it to stop the killing.

That decision was taken not by Mr Annan but by the security council, which had no appetite for new African adventures after the debacle in Somalia the previous year. A more damaging charge concerns the reaction of Mr Annan's department to a warning faxed to it in January by the force commander, Gen Romeo Dallaire, who reported that a highly placed informant had been ordered to register all Tutsi in Kigali: "He suspects it is for their extermination."

The general requested protection for the informant, and said he would raid a Hutu arms cache within 36 hours. He was told to take neither action, but to share his information with the Rwandan president and the US, French and Belgian embassies. Who exactly saw the fax, and whether it was reported to the security council, remains in dispute.

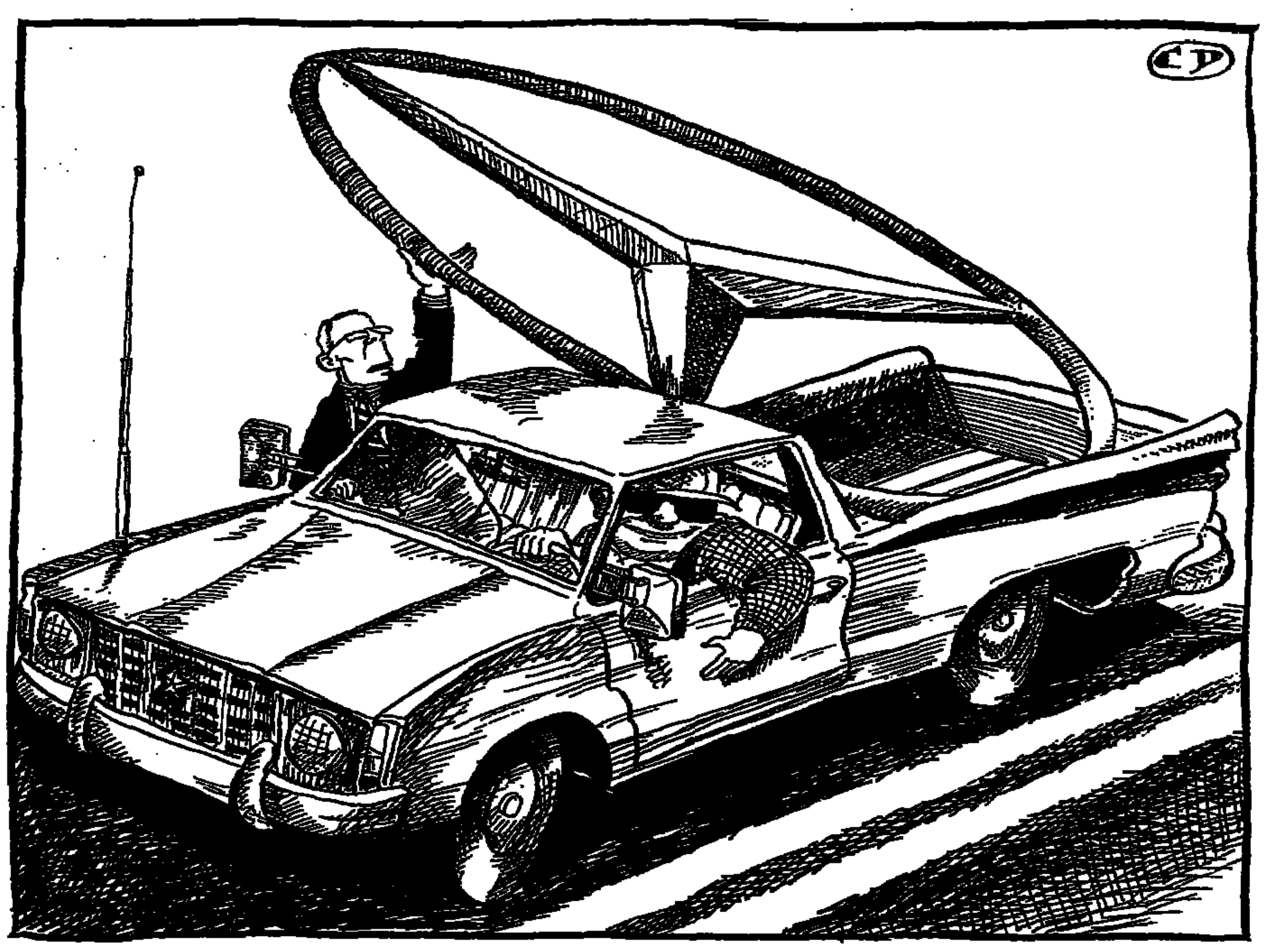
No one comes out of the story well, except Gen Dallaire himself. Mr Annan has made matters worse by forbidding him to testify at a Belgian parliamentary inquiry. But the heaviest blame lies on governments, notably those of the US and France, which had the power to act and did not, or not until much too late. Despite abundant early warning they failed to recognise the genocide as such, treating it as just another complex crisis in an obscure African country.

Bill Clinton apologised for this when he visited Rwanda in March, as Mr Annan will do today. But apologies serve little purpose unless there is a real will to take timely action when crisis looms elsewhere in future. The weak and indecisive world reaction to what is now happening in Kosovo suggests that few lessons have really been learnt.

The new model Chrysler-Benz

Peter Martin examines the business trends and cultural clashes behind what would be the world's biggest manufacturing merger

Oh Lord, won't you buy me a Mercedes Benz?
My friends all drive Porsches, I must make amends.
Worked hard all my lifetime, no help from my friends,
So Lord, won't you buy me a Mercedes Benz?



It would be nice to think that Robert Eaton, Chrysler's chairman, was a Janis Joplin fan, intent on giving his shareholders at least a part of her dream. In fact, the impulses behind the merger talks between Chrysler and Daimler-Benz, which makes Mercedes cars, are more hard-headed.

They boil down to three changes under way in global business: one specific to the auto industry, one arising directly from German circumstances and one relevant to big companies everywhere. Prodded by these trends, this particular merger is heavy with potential.

Overnight, it would make Daimler the only European carmaker with a strong position in the mass US car market, and put the merged group in contention with General Motors and Toyota for global leadership.

Of course, the chances of negotiations failing are great – there are enormously delicate issues of corporate and national culture and control to resolve first. And even if the deal is done, the task of making such a giant merger work smoothly is fraught with risk.

Nonetheless, the trends that gave birth to the discussions are irresistible, and will mould the future of Chrysler, Daimler and other big carmakers.

The first of these trends is the reshaping of the car market, in ways that are apparent in the US but have yet to make a full impact elsewhere. It is this change that makes a merger between a luxury car manufacturer like Daimler and a manufacturer of workaday transportation like Chrysler conceivable.

Traditionally, the automotive industry has been divided into three broad segments: big trucks, light trucks and cars. In turn, the car segment itself has been divided into three: luxury cars, ordinary cars and low-volume specialty vehicles like Jeeps or sports cars. The past decade has seen a complete re-ordering of this structure.

Light trucks, the ubiquitous and increasingly luxurious pickups, have merged with cars to form a single category in America: this year, almost as many light trucks will be sold as passenger cars. Ordinary cars can boast many of the attributes in quality, performance and comfort that were once the preserve of luxury cars. And speciality vehicles, such as sports cars, off-road "sport utility vehicles" and the people-carrier "multi-purpose vehicles" have emerged from their irrelevant niches to become the industry's fastest-growing and most profitable products.

Of all US manufacturers, Chrysler has adapted to this new era best and fastest. It has particular strength in light trucks – last year, it had 22 per cent of the US truck market compared with only 9 per cent of the car market, giving it a total market share of 15 per cent. Its Jeep subsidiary has a strong presence in the sport utility market. And its MPVs, such as the Chrysler Voyager, are leaders in that segment.

All this has been made possible by a reorganisation of engineering and production staff into "platform teams", which has freed them from corporate bureaucracy and allowed them to produce imaginative designs much more quickly.

A previously dull image has been transformed by a string of glamorous sports cars, including ones that do not fit any established category.

By comparison, Daimler – like most non-American carmakers – seems stuck in yesterday's market. Although it has launched some successful products into the new market segments, the mainstay of its product line is traditional luxury saloons. And much of its engineering effort is going into smaller cars, historically less profitable than their larger cousins.

It has much to learn from Chrysler, not least how to manage the engineering process to get a wider variety of cars to market more quickly, while preserving a distinct and individual design flair for each model.

But from Daimler's point of view, product questions may well be secondary. The most striking aspect of the merger talks, viewed from the German angle, is that they are taking place at all. Traditionally, big German companies have manufactured their goods at home and exported to the rest of the world.

Any substantial overseas operations they have built up have usually been achieved through organic growth. Intellectual value-added, product design and corporate momentum have all been firmly based in Germany.

At a stroke, Daimler is abandoning this tradition, triggering the same sense of shock in the German business community as it did with its decision to list its shares in New York and comply with US accounting standards in 1993. It is considering a future in which US shareholders have at least as strong a voice as German ones, and in which it must share creative hegemony with engineers from an entirely different tradition.

A host of practical questions arise from this process. If the new merged company is to be based in Germany, how will Chrysler's board members and institutional shareholders deal with the legally enforced "co-determination" between managers and workers which is a feature of German supervisory boards? If it is to be set up elsewhere, how will the defection of Germany's most prominent corporate citizen affect the political campaign under way for this autumn's federal election?

When the merged board first meets, how will it strike a balance between the two companies' business models? After all, on roughly similar revenues, Chrysler has twice the income, more than twice the number of vehicles sold and fewer than half the employees. And how will it reconcile Chrysler's determination to be solely an automotive company (it sold or spun-off the last of its defence and other ancillary businesses last year) with Daimler-Benz's central role in Germany's aerospace industry?

These questions may be too difficult to resolve now – which is why the merger may prove hard to complete. But they symbolise the issues with which all big German companies must cope as they strive to become truly global.

These can best be summed up in a single phrase: coming to terms with America. Learning to live not just with US product markets, or even US capital, but with the Faustian consequences of both: the US approach to product design, engineering process and corporate performance.

The problem is not that these are worse than German ones, merely that they are different. Successful American subsidiaries in Germany and flourishing German offshoots in the US prove that it is possible to combine the strengths of the two corporate cultures at an operational level. The challenge is now to combine them at board level too.

The third trend postpones and blurs this tricky adjustment: a move across all industries and in many different countries towards mergers that take the form of share-swaps rather than cash purchases. The deals proposed for UBS, Citigroup and (abortively) Glaxo/SmithKline all take this shape, to choose just a few among mooted recent deals. This approach to mergers has one genuine advantage: it reduces the need to pay a premium for control, since the shareholders on both sides gain from any efficiencies caused by the merger.

But it also has a number of apparent advantages, which in the long run are likely to prove drawbacks. First, all-paper deals are a characteristic of a booming stock market, since in other conditions shareholders will always prefer to receive cash, and companies will usually prefer to pay it rather than dilute what they perceive as undervalued equity.

This means that such deals have a higher-than-usual chance of proving disastrous, since they are predicated on a future viewed through inherently rosy spectacles.

Second, they allow both sides to blur the issue of who is taking over whom – which usually results in a prolonged period of corporate infighting as they war to decide the matter. Although genuine mergers of equals do occasionally occur, most such deals require the victory of one corporate culture or the other.

This is particularly true when there are two different national cultures at work, as the early problems with the mergers of Carnaud MetalBox and Pharmacia & Upjohn demonstrate. Only once the issue of which culture is in control is settled does the transaction truly bear fruit. Paper-based mergers help delay this essential if painful process.

Third, the implications for shareholders are also blurred. Whatever financial theory says, the cost of a paper transaction remains less obvious than one paid for in cash. The discipline exerted on managers proposing a merger by the need for shareholder approval is therefore lessened – so there is a higher probability that an all-paper transaction will be driven by motives other than shareholder value.

The trends that brought the Daimler and Chrysler to the stage of serious discussions – in the car market, in corporate Germany, and in the market for corporate control – are all powerful. The first two are lasting ones that make a merger tempting; and the third, though temporary, makes it financially affordable.

But such underlying trends do not guarantee a successful transaction; there is much more talking and argument to come even if the two board themselves are edging towards agreement. And even if the deal comes off, bringing the two corporate cultures together will be a challenge dwarfing anything the pair have tackled in recent years.

Without a successful merger of minds, the transaction could rapidly sour. Or, as Janis Joplin put it in "One Night Stand": "Just because we loved tonight, please don't think it's gonna stay that way."

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OBSERVER

Motown meets Lili Marlene

The combination of Daimler-Benz and Chrysler would certainly be one of the biggest rigs on the global industrial highway. But is there really room in the cab for both Colorado-born Bob Eaton and Jürgen Schrempp, the tough teamster from Stuttgart?

Looking on the bright side, the transatlantic collision of corporate cultures may not be head-on. Before taking the wheel at Chrysler in 1992, Eaton ran General Motors' European operations, centred on Germany's Adam Opel. The man who bought his first car at the age of 11 – a 1933 Chevrolet that cost a princely $10 – and went on to study mechanical engineering should also understand Daimler's nuts-and-bolts mentality.

Schrempp, meanwhile, is more in tune with Detroit-style shareholder value than most of his Teutonic counterparts.

Eaton, 58, has also shown himself to be a bit of a down-home diplomat. When he arrived from GM, he leap-frogged into the top job over the head of respected Chrysler man Bob Lutz; against all expectations, they went on to work together to get the company firing on all cylinders.

The snag is that Schrempp has never had much of a caring, sharing reputation. The last petrol-head who tried to cruise alongside the 53-year-old Baden-Württemberger was former Mercedes-Benz boss Helmut Werner. He ended up on the hard shoulder. It will be interesting to see if Eaton can do better.

Body language

The top job at the European Central Bank may be spoken for, but there is another Frankfurt-based vacancy waiting to be filled. Someone has to look after Duisenberg, Trichet and the rest of the Europe's monetary moguls – so they are advertising for a minder who knows more about security than securities.

It's going to take brains as well as brawn to clinch the job. Along with a weapons licence and knowledge of bomb detection and first aid, the successful candidate will be as comfortable chatting in English as in German. The perfect bodyguard will also have "a basic knowledge of French" – though there is four years to go before Trichet takes over from Duisenberg in the armoured-plated limo.

There is no mention of salary but you can bet your life it will be paid in euros. After all the simmering feuds on show in Brussels last weekend, it's no surprise to learn that the start date is "as soon as possible".

Gripen stuff

Generations of South Africans grew up with stirring tales of intrepid white settlers battling against black warriors, perfidious Albion and the international communist conspiracy. Now Nelson Mandela's government plans to set the record straight. Yesterday it appointed Nhlanhla Ndebele, a 30-year-old historian, to write a new official version of South African history, based on the African National Congress archives.

But who is stumping up the cash to fund the three-year project? Step forward British Aerospace, which admits, when pressed, that its contribution is not unrelated to its efforts to sell the South Africans the Gripen fighter jet, made by Saab of Sweden, in which BAe recently took a 35 per cent stake.

You would have thought the ANC stamp of approval would also help BAe charm the anti-arms sales protestors who disrupt every annual shareholders' meeting. But the company is not optimistic. "Our huge contributions all over the world are not something people want to hear about," laments a spokesman.

Perhaps they could ask Ndebele to pop over and set the record straight.

For art's sake

What can François Pinault's fellow art collectors make of the French tycoon's decision to add a stake in Christies to his collection? One concern must be that his interest in the antique auction house will help him steal a march on other aesthetes when desirable works of art come to market.

The Breton forester's son is known to like modern American painters such as colour field pioneer Mark Rothko and Jackson Pollock, who preferred wiggly lines. He is also said to own a piece by Robert Rauschenberg, the Texan known for incorporating everyday objects like clocks in his work.

Pinault may, in turn, give Christies an inside track when the French auction business is opened to international houses. The presence of such an influential figure will surely help Christies make its mark in the French art market. And as the owner of Château Latour, Pinault presumably knows a thing or two about fine wine.

Just the ticket

Spare a thought for Karel Van Miert. The pugnacious EU competition commissioner discloses that he is not going to attend any World Cup soccer matches this summer. The involvement of Brussels in the controversy over ticket sales is to blame. Van Miert confides he has received a number of offers of tickets, including seats for the final, but "since I have to manage this dossier, I will not go".

The sad news came as the last 3,000 tickets went on sale yesterday through the infamous World Cup hotline, with six matches vying for the dubious honour of being the last game to sell out. Surely no one would begrudge Van Miert a seat in Toulouse for Cameroon's titanic clash against Austria?

The Financial Times

100 years ago

Rising in Sierra Leone
Liverpool, 6th May. It is stated on good authority that the rising in Sierra Leone against the hut tax is now regarded as so serious as to demand the despatch of Imperial white troops. Up to the present, with the exception of the Sierra Leone Artillery Force and some marines and bluejackets from Her Majesty's ship "Fox", the troops employed against the rebels have been either West Indians or African. The War Office has now, it is understood, been instructed to send out Imperial troops now in England, and the next couple of weeks will see the despatch to Sierra Leone of from 500 to 700 men and officers.

50 years ago

Rover Gas Turbine
Birmingham, May 6. Preliminary details of a gas turbine car engine developed by the Rover Company were announced today. It develops about 100 brake h.p. and could be fitted to existing chassis and bodies. All that is required are different engine mountings. Mr. Maurice C. Wilks, chief engineer, who has been closely concerned with the development of jet engines, said: "Somewhat to our surprise, the new engine went the first time."

FINANCIAL TIMES
THURSDAY MAY 7 1998

THE LEX COLUMN

Buy me a Chrysler-Benz

Welding together Daimler-Benz and Chrysler will require skilled mechanics, but should produce a powerful machine. If the ignition fires, Daimler will storm to the number three slot in the US market, behind General Motors and Ford. With Chrysler's strength in light pick-ups and people carriers, Daimler will be well positioned in the fastest-growing segments of the auto market. And its engineering prowess, *not to mention financial* resources, should help rejuvenate Chrysler's flagging car range.

Since the overlaps are minimal – Chrysler's European presence is negligible – cost-cutting is not the overriding aim. German unions are unlikely to object on behalf of Daimler's near 300,000 employees as they did with the last big industrial merger, Krupp-Thyssen. Merging distribution networks is also a non-starter: putting Mercs and Dodges in the same show*room will only erode the former's* premium pricing.

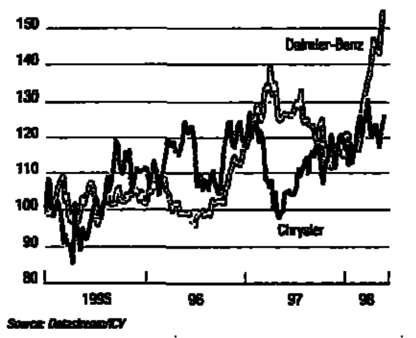
Still, there are huge savings on offer, most of all from enhanced purchasing power; and the scope for platform-sharing for future models should also create substantial value.

On the basis of yesterday's market capitalisations, Daimler shareholders should end up with 65 per cent of the new entity – effectively a takeover by the Germans, whatever the euphemisms used to describe the proposed deal. Hence the premium that is likely to be implicit in the exchange ratio of the two companies' shares.

Paying a premium should not hurt too much since, for once, a European company is more highly rated than its US counterpart: Daimler trades on a 1998 multiple of 6.9 times enterprise value/earnings before interest, tax and depreciation compared to a lowly 4.1 times for Chrysler.

Of course there is no guarantee that this vehicle will make it out of the garage. Any deal will have to be structured to overcome hefty tax, regulatory and accounting issues. And depending on where the new group is domiciled, either Chrysler's shareholders (including the vocal Kirk Kerkorian) or Daimler's (including Deutsche Bank with 24 per cent) will have to be persuaded to accept shares in a foreign company – unless an unwieldy dual share structure is introduced. Moreover, a merger of this size between two such different cultures presents enormous management risks. The *notion that the two companies' head*strong chairmen will happily share power for any length of time certainly looks naive.

Chrysler/Daimler-Benz
Share prices relative to the World Automobiles index



Source: Datastream/ICV

Daimler will also have to consider the future of its other businesses, particularly since Chrysler has slimmed down to just cars. But this deal should make it easier for Daimler to relinquish control of its aerospace and defence interests, while parts of the Debis information division could be easily floated off.

Other carmakers, meanwhile, have little to gain from a merger that produces a bigger rival with lower costs but fails to remove any of the industry's massive overcapacity.

Shareholder value

Any continental European companies still wondering why they should embrace shareholder value need look no further than Daimler-Benz's talks with Chrysler. *Daimler is well placed to emerge as leader* in this combination only because Jürgen Schrempp has taken tough measures to advance shareholders' interests since he took the helm.

The result has been an astonishing recovery in the share price: back in 1995, Daimler was worth only 40 per cent more than Chrysler; now it is worth nearly double its prospective US partner. A strong share price is a powerful tool for advancing corporate ambitions.

PolyGram/Philips

As EMI and Seagram perform a wary merger dance, Philips has piped up: "Do not forget PolyGram". That seems the most plausible explanation why the normally taciturn Dutch electronics group is indicating its 75 per cent stake in the music group could be up for grabs.

The best way for Philips to maximise the value of its PolyGram shares would be to sell them to a trade buyer. But if Seagram bought EMI, the most obvious purchaser would be out of the picture. A combination of PolyGram with any of the other big music groups would have even greater industrial logic. The snag is that, with the possible exception of Bertelsmann, the resulting entity would be so dominant that competition authorities would cry foul. The same goes for EMI. This puts Seagram in a strong negotiating *position.*

As for Philips, the puzzle is not that it is considering divesting PolyGram but what it would do with the cash. Unless it has a big acquisition up its sleeve, it would be drowning in cash. One option would be to buy back shares. Of course, if it cannot sell PolyGram at a premium, it could just give the stake to its shareholders.

Liberty Life/Standard

Donald Gordon, Liberty Life chairman, is playing his favoured role of curmudgeon. He reckons the market undervalues his shares, while placing a full value on those of the Standard Bank group. Moreover, he is none too enamoured of the whole *bancassurance* concept. No wonder merger talks were stillborn. But Mr Gordon's views do raise the question: if he is so sceptical about banks, what is he doing with a 42 per cent stake in one? It may have been a good investment, but what *purpose justified such a large holding?*

Given his scepticism about bank valuations, Mr Gordon is more likely to want to sell down his stake than seek a control position. But he will struggle to find a single buyer. Local investors would probably be stymied on competition grounds, while foreigners are likely to be chary of putting R15bn ($2.97bn) into South Africa. This leaves a share placing, a prospect which may cast a renewed shadow over the stock price.

Sinn Féin to recommend Yes vote in poll on Ulster deal

Party may allow candidates to enter new N Ireland assembly

By John Murray Brown in Belfast

Sinn Féin, the IRA's political wing, has indicated it will back the Northern Ireland peace deal and abandon its historic opposition to taking seats in a "partitionist" government for the province.

Mitchel McLaughlin, Sinn Féin chairman, yesterday confirmed that, at this weekend's special party conference, the leadership would recommend a Yes vote north and south of the border and seek backing to allow its candidates to enter the devolved Northern Ireland assembly.

The move came as Tony Blair, the UK prime minister, joined forces in Belfast with John Major, his Conservative predecessor, to rally support for the peace deal with a call for a Yes vote in the *May 22 referendum.*

Reg Empey, the Ulster Unionist chairman, said the action indicated by Sinn Féin would mark a "seismic" shift in republican thinking and be tantamount to recognition of partition. It follows reports that the IRA's full army convention met at the weekend and gave approval for joint members of the IRA and Sinn Féin to enter what the IRA's constitution – known as the Green Book – has referred to as "a subservient parliament".

Mr McLaughlin would say only that the party was "still in the process of contacting our local structures, and a commitment we gave to them is that they would get it first before we would speak publicly on the precise details".

But as Mr Blair and Mr Major shared a question-and-answer session with Belfast schoolchildren, the Yes camp was dealt a blow by Lord Molyneaux, the former Ulster Unionist party leader. He told the House of Lords the April 10 peace accord was "a monstrous conveyor belt, which was designed and intended to deliver concessions to violent and criminal organisations".

The Church of Ireland, like the Presbyterian and Methodist churches, yesterday declined publicly to urge a Yes vote but urged members to follow their consciences.

In a clear bid to reassure unionists on the key issue of arms, Mr Blair had earlier told the House of Commons "it is essential that organisations that want to benefit from the early release of prisoners are organisations that have given up violence – decommissioning is part of that".

David Trimble, the Ulster Unionist leader, said Sinn Féin had given assurances to the Irish government *in the final* hours of the multi-party negotiations that there would be total disarmament.

But Mr McLaughlin said Mr Trimble was engaging in "flights of fancy". However, he added: "If we have an agreement that works, then all guns will be taken out of circulation. I think all parties that want to see a genuine peace can subscribe to that. My party certainly does."

Any recommendation to support the multi-party agreement will require a simple majority to be approved. But Mr McLaughlin said any lift to the bar on taking seats in the assembly would need a two-thirds majority of the special party conference.

Republicans reassure gunmen, Page 11

Eta blamed as fifth Spanish politician is killed within a year

By David White in Madrid

A councillor in the northern Spanish city of Pamplona was shot dead in his car yesterday, apparently the vic*tim of Basque separatists and the* fifth local official they have killed in in Spain since last summer.

Police said the close-range shooting of Tomás Caballero, 63, bore the hallmarks of Eta, the Basque separatist group responsible for the previous killings. They suspected the murder was carried out by gunmen from San Sebastián, where six Eta suspects have been arrested since last Saturday.

Documents seized in the police operation in San Sebastián were reported to include plans for an attack against King Juan Carlos during an inauguration ceremony for a new aquarium in the Basque resort city this summer.

An earlier plot to assassinate the king on holiday in Majorca was intercepted in 1995.

Yesterday's killing was seen as a response to a series of arrests of Eta members in the Basque region and Seville, where another councillor and his wife were shot dead in January.

Pamplona is the capital of Navarre, which radical nationalists want to incorporate into a Basque nation.

The victim, who had clashed with Eta's political wing, Herri Batasuna, belonged to the Navarre People's Union, the region's conservative party, which is allied to Spain's ruling Popular Party.

Eta has recently concentrated its attacks on PP councillors as a way of achieving high political and public impact. The PP's elected representatives in the Basque region now routinely have bodyguards, but Mr Caballero did not.

The killing will further reinforce the PP government's resolve to refuse to enter negotiations with Eta or Herri Batasuna.

Eta said in a recent statement it was ready to learn from the peace agreement in Northern Ireland, but gave no indication of any plan to halt its attacks. The Basque region's president, José Antonio Ardanza, made an unsuccessful attempt in *March to build* an inter-party consensus for a plan to offer open-ended talks with Herri Batasuna if Eta called an indefinite ceasefire.

Herri Batasuna said yesterday it was "shocked" by the latest murder, but added that it should be seen in the context of a political conflict.

The party, under new leadership since 23 top figures were jailed in December, hit out at what it described as "a sort of police binge" and called on *Jaime Mayor Oreja,* interior minister, to reflect on current government policy. Mr Mayor Oreja was one of five ministers to travel to Pamplona after the killing.

Hundreds of townspeople held a spontaneous silent protest outside Pamplona's city hall. The main trade unions called for a half-hour stoppage today to express popular revulsion against the murder.

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US president Bill Clinton sought to heal diplomatic wounds as he greeted visiting Italian prime minister Romano Prodi. Page 10 Picture Reuters

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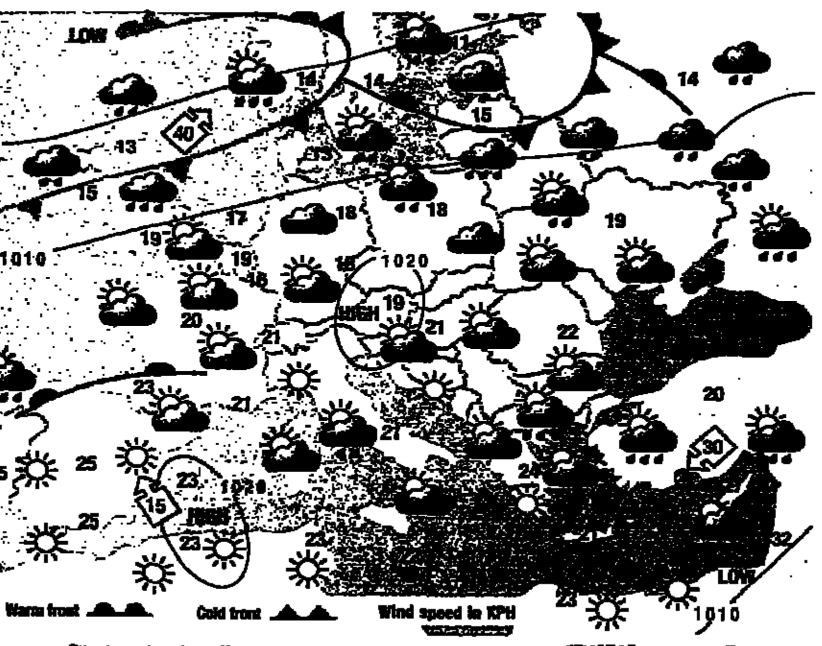
FT WEATHER GUIDE

Europe today

Southern Scandinavia and north-east Europe will be cloudy with rain at times. The far north of Scandinavia will be cold with rain and sleet. The Low Countries and northern Germany will start cloudy with drizzle, but it will brighten up. France, southern Germany, Austria and Switzerland will be warm with hazy sunshine. Most of the Mediterranean will be warm with strong sunshine, but there may be showers in northern Spain, central Italy, northern Greece and Cyprus.

Five-day forecast

Warm air will push north across central and western Europe, bringing hot conditions to many places. However, the high temperatures will bring scattered thundery showers over the weekend and early next week. Scandinavia and north-east Europe will remain unsettled, but south-east Europe will be sunny.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Fair	35
Accra	Sun	32
Algiers	Sun	23
Amsterdam	Cloudy	17
Athens	Fair	24
Atlanta	Thunder	27
B. Aires	Fair	23
B.ham	Fair	17
Bangkok	Fair	37
Barcelona	Sun	21
Beijing	Cloudy	24
Belfast	Rain	14
Belgrade	Fair	21
Berlin	Cloudy	18
Bermuda	Cloudy	25
Bogota	Fair	20
Bombay	Fair	34
Brussels	Fair	19
Budapest	Fair	21
C.hagen	Shower	13
Cairo	Fair	32
Caracas	Thunder	31
Cardiff	Cloudy	15
Casablanca	Sun	23
Chicago	Shower	22
Cologne	Shower	19
Dakar	Sun	25
Dallas	Sun	35
Delhi	Fair	38
Dubai	Fair	37
Dublin	Cloudy	15
Dubrovnik	Sun	21
Edinburgh	Rain	14
Faro	Sun	23
Frankfurt	Fair	19
Geneva	Fair	21
Gibraltar	Sun	22
Glasgow	Rain	13
Hamburg	Cloudy	16
Helsinki	Shower	11
Hong Kong	Fair	27
Honolulu	Thunder	30
Istanbul	Fair	20
Jakarta	Fair	32
Jersey	Cloudy	16
Johannesburg	Sun	24
Karachi	Sun	34
Kuwait	Sun	37
L. Angeles	Fair	21
Las Palmas	Fair	24
Lima	Fair	27
Lisbon	Sun	25
London	Fair	19
Lux.bourg	Cloudy	16
Lyon	Fair	22
Madeira	Fair	21
Madrid	Sun	25
Majorca	Sun	23
Malta	Fair	22
Manchester	Rain	16
Manila	Fair	34
Melbourne	Fair	17
Mexico City	Fair	31
Miami	Sun	31
Milan	Sun	24
Montreal	Sun	20
Moscow	drzl	16
Munich	Fair	20
Nairobi	Sun	28
Naples	Fair	22
Nassau	Fair	29
New York	Fair	23
Nice	Fair	21
Nicosia	Shower	27
Oslo	Shower	14
Paris	Fair	20
Perth	Rain	20
Prague	Fair	18
Rangoon	Thunder	34
Reykjavik	Fair	7
Rio	Fair	25
Rome	Shower	21
S. Frsco	Shower	19
Seoul	Shower	23
Singapore	Fair	34
Stockholm	Shower	14
Strasbourg	Fair	20
Sydney	Fair	21
Tangier	Fair	23
Tel Aviv	Fair	32
Tokyo	Rain	23
Toronto	Fair	23
Vancouver	Fair	17
Venice	Sun	22
Vienna	Fair	19
Warsaw	Fair	18
Washington	Fair	26
Wellington	Fair	18
Winnipeg	Fair	14
Zurich	Fair	20

FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

Norwegian banks ready for change
The dismissal by Den norske Bank, Norway's largest commercial lender, of Finn Hvistendahl, its chief executive, was viewed by analysts as heralding a shake-up of Norway's splintered financial services industry. Frederik Myren, banking analyst at HSBC James Capel, says substantial restructuring in the sector is inevitable. Page 18

Internet's new sense of community
GeoCities, one of the biggest internet community groups with 1.7m active members and 10m individual visitors every month, is divided, by age and interests, into 60 distinct communities. This not only creates more easily-identified segments for advertisers to target, but also provides a platform for electronic commerce. Page 22

Indian mortgage lender's profits rise
Housing Development Finance Corporation, India's biggest mortgage lender, announced a 12 per cent rise in pre-tax profits to Rs3.5bn ($88m) for the year to March 31, giving further proof that India has escaped the problems in property lending that trouble south-east Asia. Page 19

Chinese provinces to set grain price
China plans to shift the responsibility for setting the state purchase price for grain from central to provincial authorities. The move signals an important step towards reforming a labyrinthine grain-marketing system plagued by waste, corruption and inefficiency. Page 30

Demand for rubber increases 6%
Global demand for elastomers – both natural and synthetic rubber – grew by 6 per cent in 1997, according to the International Rubber Study Group. The IRSG said the rise was a record for the third successive year but production levels stagnated and world stocks fell. Page 30

Birth of the euro

NEW FT STATISTICS
The FT's new statistical service covering data relating to European Monetary Union is today on page 27. The service covers equities, currencies, money and bonds.

COMPANIES IN THIS ISSUE

MARKET STATISTICS

Travelers chief to lead Citigroup

Weill's right-hand man to become president of giant new bank after $160bn merger

By Tracy Corrigan and John Authers in New York

James Dimon, chief operating officer of Travelers, is to become president at Citigroup, the giant bank to be created this year by the US company's $160bn merger with Citicorp.

The appointment of Mr Dimon, who has been described as the right-hand man of Sanford Weill, the company's chief executive, appeared to strengthen initial impressions that the merged company would be dominated by Travelers.

However, officials stressed the role would be more tightly defined in the new company than is traditional in a US corporation. Mr Dimon will have responsibility for financial functions.

Other executives will report to John Reed of Citicorp and Mr Weill, who will run the company as co-chairmen and chief executive officers in a controversial power-sharing agreement.

The new business will be divided into three groups: global consumer business, global corporate and investor businesses and asset management business, run by six executives. The diverse nature of the business meant no executives were clear losers.

"Both companies have tended to have a fairly flat structure, with a strong leader at the helm," said one analyst.

In the most closely watched appointments Bill Campbell, of Citibank, and Robert Lipp, of Travelers, were named as co-chief executives of the global consumer business, which is seen as critical to the combined company's attempts to generate increased revenues through cross-selling.

Mr Campbell, a former chief executive of Philip Morris USA, the tobacco and consumer goods company, was last year given the job of co-ordinating all Citicorp's global consumer businesses to build brand identity.

However, Mr Lipp will have direct responsibility for the new company's North American operations. Among those reporting to him will be several Citibank lines of business, including its credit card business – the world's largest – mortgage services and its Citibanking retail network.

Mr Campbell will focus on the changes in strategy needed to sell the new company's large product range through Citibank's extensive distribution network outside the US.

In a letter to staff, Mr Reed and Mr Weill said: "The management processes of Citigroup will evolve over time with the objective of using the best of both Travelers Group and Citicorp. We will expose the Travelers Group and Citicorp management teams to the best of both styles." However, the result of trying to bring together representatives of the diverse businesses may be cumbersome.

The new senior management of Citigroup – about 75 people – will meet quarterly for operating reviews, a practice based on Citicorp's senior management process.

Derek Sword, banking analyst at Keefe, Bruyette & Woods, said this arrangement showed the complexity of the management task. "When you've got two companies of this size coming together you need co-chairmen and co-managers coming together to run them. It's quite impossible to put one person in charge."

US banks may move business from Liffe

By Edward Luce

Senior bankers at Salomon Brothers and Chase Manhattan, the US investment banks, yesterday said they were "seriously considering" moving large chunks of their derivatives business from the London International Financial Futures and Options Exchange to the Deutsche Terminbörse, Liffe's main competitor.

The bankers – both of whom head derivatives operations – said they wanted to trade short-term interest rate futures and options on an electronic system rather than on Liffe's trading floor. Plans to allow traders to deal in contracts electronically during the day were announced earlier this year but will not be introduced until late 1999.

Liffe dominates dealing in European short term interest rate contracts – 98 per cent of German three-month contracts are trading in London, for example. But Liffe has been hard hit by competition from the DTB this year. Since January the London exchange has lost its majority market share in the 10-year German government bond future to Frankfurt.

"We believe open outcry is too expensive in comparison to electronic trading," said Simon Bowden at Salomon Brothers in London. "This is why we moved our 10-year bond future business to the DTB last year."

A spokesman at Liffe said the exchange was planning to make serious reforms.

"We are obviously concerned when two members say they are considering transferring their business to a rival exchange," he said.

However, both Salomon Brothers and Chase Manhattan, which are among the five most prolific traders of short-term interest rate contracts at Liffe, say the exchange should speed up its plans to introduce daytime electronic trading.

Shares in Tokyo fell to their lowest levels since January as traders caught up with domestic news and developments in south-east Asia after their four-day weekend. The Nikkei 225 Average ended 2.3 per cent lower. World stocks, Page 40; Editorial Comment, Page 15. Picture Reuters

Renault and Fiat units set to merge coach and bus activities

Move will create powerful new force in fragmented European market

By David Owen in Paris and John Griffiths in London

Renault VI and Iveco, the truck and bus units of France's Renault and Fiat of Italy respectively, are to merge their coach and bus activities, creating a powerful new force in the fragmented European market.

The 50-50 venture should produce a company with annual sales of more than FFr6bn ($980mn) and 6,000 employees producing 7,500 buses and coaches of all sizes, including minibuses and chassis. It will be second only to Mercedes-Benz' Evobus subsidiary in Europe, with a market share approaching 25 per cent. Evobus has nearly a third of the market.

The move is part of continuing consolidation in the bus and coach industry, despite the market fragmentation caused by the widely varying demands of the municipalities that are Europe's main bus buyers.

Traditionally they have tended to place orders with national suppliers with which they have had long relationships. But cost pressures are increasingly leading to open tenders, giving larger pan-European operators better opportunities.

The new company has yet to be given a name. It will be run independently from the parent groups. The chairman and chief operating officer are to come from Italy, and the chief executive from France.

A decision on whether its headquarters will be in Italy or France will be made shortly. Both Renault VI and Iveco have remodelled their product ranges in the past two years. Renault VI has also restructured its manufacturing facilities, investing about FFr250m at its Annonay plant near Saint-Etienne in central France.

The French group would also bring to the joint company its research and development facilities at Vénissieux and Saint-Priest; its Heuliez bus subsidiary; and its majority interest in the Karosa company in the Czech Republic.

Iveco's contributions include its plant and R&D facilities at Valle Ufita and Turin, together with its coach-building Orlandi subsidiary and its majority holding in Altra of Spain. The companies said that by combining production resources, they expected to achieve substantial cost reductions in the development of future joint products, as well as important economies of scale. There would be no effect on staff numbers or employment terms.

The agreement, under discussion for two years, comes as the French company appears well on its way to recovery after accumulated losses of more than FFr1bn in the past two years.

The announcement came on a day on which Renault shares, like those of other carmakers, rose sharply in the wake of the disclosure that Daimler-Benz and Chrysler are engaged in merger discussions.

JP Morgan and UBS advised on the deal.

AMP set to provide biggest Australian windfall

By Gwen Robinson in Sydney

AMP, Australia's largest insurance and fund manager, expects a market capitalisation of A$13bn-A$16bn ($8bn-$10bn) when it lists on the Australian and New Zealand stock exchanges on June 15, according to its prospectus issued yesterday. The estimated price range of A$12.50 to A$16 per share will rank the group among Australia's top 10 listed companies.

The group, known before its demutualisation on January 1 as Australian Mutual Provident Society, has about A$150bn in funds under management.

The average policy holder is likely to receive 600-650 free shares worth nearly A$9,000, according to the middle range of AMP's estimated share price, making it Australia's largest share windfall for investors.

The estimated price range has risen from the $8.81-$10.37 given last September, reflecting this year's big rise in financial company share prices.

Individuals hold about 90 per cent of AMP's 1.04bn shares. The rest are held by AMP-related trusts on behalf of wholesale clients. Of the group's shareholders, 1.22m are in Australia, 282,000 in New Zealand, 173,000 in the UK and 10,000 elsewhere.

Analysts believe AMP will list at the high end of its share price range because of strong demand from fund managers who have complained the limited supply of AMP shares will leave them underweight in the stock. To help limit the scramble, the Australian Stock Exchange has agreed to stagger the inclusion of AMP shares into the All Ordinaries index, the market's main gauge. At 100 per cent weighting, AMP is expected to account for nearly 4 per cent of the index.

George Trumbull, managing director, said AMP had had "significant" discussions with the Australian Securities Commission for a change in rules that prohibit AMP from trading in its own shares. For the time being, AMP could buy its own shares for its statutory accounts, or certain funds linked to compulsory superannuation programmes.

Mr Trumbull forecast AMP would make a net profit, before extraordinary losses, of A$774m-A$977m in 1998 – up from A$888m in 1997 and A$695m in 1996. However, the group expects an extraordinary loss of A$1.67bn in the current year, because of A$1.4bn costs associated with an accounting switch and A$253m in restructuring. Earnings per share before the loss are likely to range from 74 cents to 94 cents.

Share priority plan, Page 19

Belgian bank steps up efforts to resist Fortis link

By Neil Buckley in Brussels

The management of Générale de Banque, Belgium's biggest bank, is stepping up efforts to find a "white knight" bidder as an alternative to the proposed merger with Fortis, the Belgo-Dutch financial services group.

The six-man management committee has intensified discussions with potential partners, thought to include ABN-Amro of the Netherlands, France's Crédit Agricole and Société Générale, and Germany's Deutsche Bank.

The move follows Monday's meeting of Générale's full board, including the management committee, which was deeply split over the Fortis plan – in spite of the fact it would create a new Benelux banking force that would be one of Europe's top 10 banks.

Nine directors, representing the bank's main shareholders – chiefly the holding company Société Générale de Belgique – backed the plan. But eight, including the management and two independent directors, opposed it on the grounds that it would threaten the bank's "operating stability and autonomy". Eleven other independent directors demanded more information.

Management, headed by Ferdinand Chaffart, chief executive, does not believe the Fortis proposal is in the best interest of the bank's staff or shareholders, despite concessions offered by the group. These include guaranteeing a continued stock exchange listing for Générale, and offering Mr Chaffart a co-chief executive role in the enlarged group with Herman Verwilst, head of Fortis' main banking business, CGER-ASLK.

But Générale's managers believe their persistent and forthright opposition means they would have to stand down if a Fortis deal went ahead. They are understood to have received strong messages of support within the bank, and Mr Chaffart was last month given a new three-year mandate, and a warm ovation, at the bank's AGM.

The management's defiant attitude puts it in conflict with Société Générale de Belgique, which has made clear its intention to cede its 30 per cent stake to Fortis. The move is part of a broader rationalisation plan that would include SGB's parent, France's Suez Lyonnaise des Eaux, increasing its stake in SGB from 64 to 100 per cent.

Belgium's Banking and Finance Commission, which must approve projects involving changes of control of Belgian banks, was presented with the Générale board's opinion on Monday. It has said the bank's independent directors should be given more time to get the information they need from Fortis to make a decision.

ENTERTAINMENT SHARES IN MUSIC COMPANY JUMP AS ELECTRONICS GROUP SAYS IT IS 'EVALUATING VARIOUS STRATEGIC OPTIONS'

Philips hints at sale of PolyGram stake

By Gordon Cramb in Amsterdam

Shares in PolyGram, the world's largest music company, jumped 12.4 per cent yesterday as Philips, the Dutch electronics group, said it was "evaluating various strategic options with respect to its stake".

Philips, which controls 75 per cent of PolyGram, refused to elaborate beyond saying it was responding to inquiries prompted by recent speculation. It had no timescale for the matter to be resolved, it added.

Since the bid approach last month to UK-based EMI – believed to have come from the North American Seagram group, which owns Universal Music and Universal Pictures – analysts have been expecting further consolidation in the entertainment sector.

Jeff Meys, of ABN Amro in London, said the sale of PolyGram to an industry buyer was the most likely outcome. "Given Philips' targets for return on capital, it *is hard to justify the retention* of PolyGram. You would need a long horizon."

Philips has set itself high performance standards and divested numerous operations in the year and a half that Cor Boonstra has been at the helm. However, he wrote in its latest annual report: "We have a strong belief in the future of PolyGram because of the growing importance of intellectual property rights and content in the world market. PolyGram's content also offers opportunities to enhance Philips' consumer electronics businesses."

Anita Farrell, of Merrill Lynch in London, said buying out the rest of PolyGram was a more likely option than a sale. This could allow a change in its name to something like Philips Records, thus extending the Philips brand which Mr Boonstra is anxious to build.

The music company, which in recent years has also built a presence in film production and distribution, last month reported a collapse in first-quarter net profits from Fl 122m a year earlier to just Fl 15m ($7.5m).

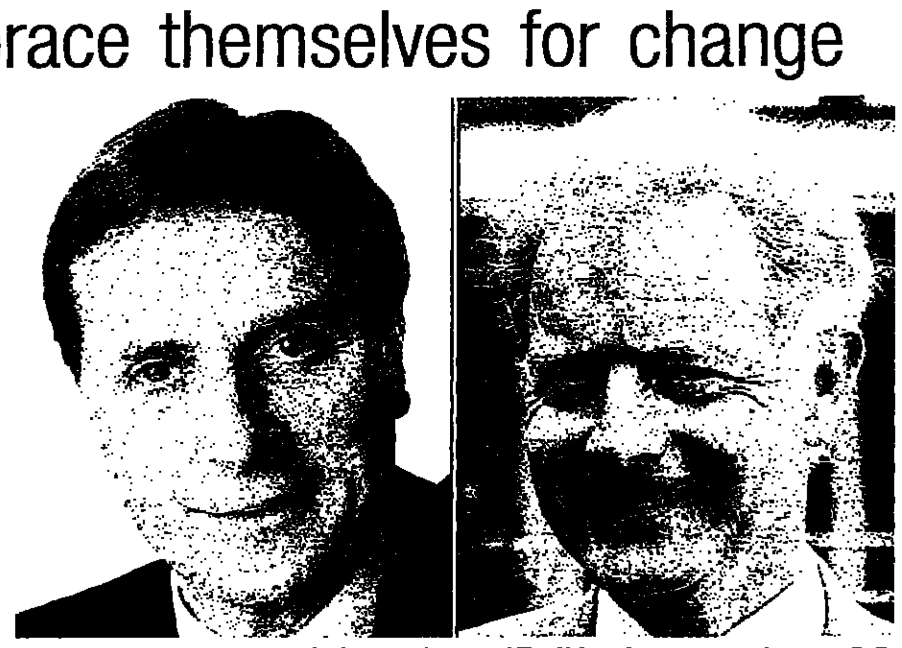
Alain Lévy, PolyGram chief executive, said then that a recovery was likely in the second half, because of the uneven timing of its record and film releases. The company also had to make provisions for bad debts from customers in Asia.

At ABN Amro, Mr Meys identified Bertelsmann of Germany as a potential bidder, along with Seagram. But PolyGram, with a 17 per cent global share of sales of recorded music, could not be merged with EMI, on competition grounds. He ruled out Warner and Sony for the same reason.

PolyGram shares closed Fl 10.80 higher in Amsterdam, at Fl 98. Shares in Philips added Fl 4.20 to Fl 193.60.

Norwegian banks brace themselves for change

A shake-out is expected in the country's financial services sector, writes **Greg McIvor**



Entering a new phase: Svein Aaser (left) is replacing ousted Finn Hvistendahl to oversee changes at DnB

The blast of consolidation that has swept Scandinavian banking during the past 18 months has barely ruffled the feathers of Norway's lenders. While Swedish, Finnish and Danish banks have indulged in frantic deal-making, their Norwegian counterparts have watched quietly from the sidelines.

This may be about to change. The dismissal by Den norske Bank, Norway's largest commercial lender, of its chief executive late on Tuesday was viewed by many analysts yesterday as heralding a much-needed shake-out of Norway's splintered financial services industry.

Certainly, DnB's board has little doubt about the need to act. The desire for a more aggressive approach to structural change was the board's official reason for its unceremonious dismissal of Finn Hvistendahl, chief executive since 1991.

In replacing him with Svein Aaser, deputy chief executive of Nycomed Amersham, the Anglo-Norwegian pharmaceuticals group, DnB is bringing in an executive with an impressive record in mergers and acquisitions.

Mr Aaser spearheaded the demerger of the energy and pharmaceuticals conglomerate Hafslund-Nycomed in 1996 and was then the driving force behind Nycomed's merger with Amersham last summer.

DnB's board said the bank was "entering a new phase where the greatest challenges will be structural changes and the internationalisation of the financial industry". Mr Aaser's credentials made him the best candidate to tackle these demands.

Mr Hvistendahl, who is credited for returning DnB to profitability after a deep loan-loss crisis in the early 1990s, might feel a little aggrieved. He had hardly been idle in seeking to bolster DnB's market leader status, leading the NKr3bn ($408m) takeover of Vital, Norway's second largest insurer, in 1996.

Last year he signalled an interest in establishing links with MeritaNordbanken, the newly merged Swedish-Finnish bank, while an agreed takeover of BNbank, the Norwegian mortgage lender, was controversially blocked by the government – DnB's largest shareholder – on competition grounds.

One analyst suggested yesterday that DnB's board felt Mr Hvistendahl "was not being opportunistic enough". This perception may have been reinforced by a revival this week of merger talks between Christiania, DnB's arch-rival, and Storebrand, the country's biggest insurer.

"It is evident that the Norwegians have been left behind in terms of consolidation," says Frederik Myren, banking analyst at HSBC James Capel in Stockholm. Looking ahead, he predicts substantial restructuring is inevitable.

Such sentiment was reflected in strong rises among Norwegian banking stocks yesterday. DnB shares led the way, surging NKr2.70 to NKr41.80 – a gain of almost 7 per cent.

But one large obstacle looms in the face of rationalisation. The Norwegian government, which holds more than 50 per cent of both DnB and Christiania, has hitherto been opposed to either institution participating in any cross-border deal which would see them removed from Norwegian control.

Furthermore, the state has acted as a brake on domestic consolidation by opposing tie-ups it has viewed as diminishing competition.

The big question is whether this attitude is going to soften. Jan Hopland, managing director of the government's bank investment fund, hints that the nationalistic approach may be giving way to greater pragmatism in the corridors of power.

"We have to be open to the global trends and internationalisation taking place in financial services," Mr Hopland says. "We have seen a floodwave of structural change in Europe and the United States. I don't see why Norway should be an exception."

Kirch dismisses talk of financial crisis

By Frederick Stüdemann in Berlin

Kirch, the German media group, yesterday dismissed reports that it was on the brink of a financial crisis because of severe liquidity problems.

The company said a front-page report in yesterday's Süddeutsche Zeitung that banks had turned down requests for loans was based on inaccurate and out-of-date information gleaned from an investigation into alleged tax evasion by Kirch.

The report comes at a particularly sensitive time for Kirch, as an investigation by the European Commission's competition authorities into a proposed German digital pay-TV joint venture with CLT-Ufa, the Luxembourg-based media group, reaches its final stage.

Brussels, which has been sceptical about the proposed venture and has demanded modifications, is set to rule on the deal in early June.

Rumours of financial problems at Kirch, which is privately held, have circulated for more than a year following the unsuccessful launch of DF-1, the digital pay-TV company, and heavy spending on the broadcast rights to popular US films and television programmes.

The decision to pursue a merger of digital pay-TV operations with the rival CLT-Ufa, in which the media group Bertelsmann holds a 40 per cent stake, was in part prompted by Kirch's unstable financial situation after a series of loan requests were turned down.

Some of the German banks who have lent money to the Kirch group in the past have become nervous about dealing with the company.

"The trouble with doing business with Kirch is that he [the company founder and owner, Leo Kirch] is like a stamp collector. He's never prepared to give anything up, and that makes me wary," said one executive from a bank which has done considerable business with the company.

Another banker who has had dealings with Kirch expressed concern that the company's unclear leadership and ownership structure, which is tightly organised around Mr Kirch himself, was worrying, as "he is now over 70 and it's unclear what happens after him".

Approval from Brussels for the plan to merge DF-1 into Premiere, a pay-TV channel in which both CLT-Ufa and Kirch are shareholders, is seen as critical for the future of Kirch.

Under the terms of the merger agreement, CLT-Ufa will share the estimated DM1bn ($561m) start-up losses incurred by DF-1.

Liberty and Stanbic call off merger talks

By Mark Mulligan and Philip Gawith

Liberty Life and Standard Bank Investment Corp (Stanbic) agreed yesterday to end talks on a merger which would have created South Africa's largest financial services group, with assets of about R90bn ($10.7bn).

The two groups said the talks had foundered on disagreement over valuations.

They said: "As a consequence of significant disparity in the views of the parties and their advisers as to the relative values of the Liberty Life group and Stanbic, it has been resolved, with mutual regret, to terminate the discussions."

In March, the two companies – which have complicated cross-shareholdings – said they hoped to agree by the end of April to simplify their structures and bring together banking, life assurance and fund management operations under the control of a single holding company.

However, last weekend they admitted the proposal had become snagged on disagreement over valuations. Donald Gordon, chairman of Liberty Life, said yesterday he believed Liberty to be undervalued, while Stanbic, on around three times book value, was "fully valued".

Liberty Life shares fell R1.60 to R163.40 yesterday, against the company's own valuation estimates of R219-R252. Shares in Stanbic dropped 90 cents to R30.

Mr Gordon also expressed scepticism about the viability of the *bancassurance* concept which a Liberty subsidiary, Charter Life, had pursued with only modest success for 15 years.

Roy Anderson, chief executive, said Liberty Life would return to simplifying its structure before reconsidering a deal with Stanbic.

See Lex

OM in futures contract

By Edward Luce

OM, Sweden's derivatives exchange, is to launch a futures contract based on the 10-year Sweden government bond following the decision by the Swedish Brokers' Association yesterday to support the listing.

The move follows weeks of speculation about whether to list the contract on the Deutsche Terminbörse, Germany's leading exchange. The contract will now almost certainly be listed exclusively in Stockholm.

OM, the sixth largest derivatives exchange in Europe, said brokers had opted for it because of its impressive screen-based trading system and the existence of OM screens in other trading centres, including London.

The exchange, however, would continue to be open to co-operation or links with other exchanges, including the DTB, it said. Plans to launch a 10-year bond future later this year are linked to Sweden's decision to opt out of the first wave of European monetary union.

From next January, OM will be the second largest exchange in Europe outside Emu, after the London International Financial Futures and Options Exchange. OM believes demand for derivatives denominated in currencies other than the euro will rise sharply.

The exchange also plans to list futures on other Swedish government bond maturities including the five-year bond. The Swedish government, which became one of the first European sovereigns to issue a euro-denominated bond earlier this year, has pledged to maintain a liquid and transparent yield curve in its bond issuance programme.

The 10-year bond future will be launched in September.

BBV seeks 10% of Italian bank

By Tom Burns in Madrid

The privatisation of Italy's Banca Nazionale del Lavoro may allow Banco Bilbao Vizcaya, the biggest Spanish bank by market capitalisation, an early opportunity to build a European alliance based on its large franchise *in Latin America.*

BBV officials said yesterday Italy was a "natural" market for expansion in Europe and BNL fitted its strategic objective to create partnerships adapted to European monetary union.

Thirty per cent of BNL, Italy's fifth largest bank in terms of deposits, is to be sold in an institutional placement next month. BBV, which is seeking a 10 per cent stake, is the sole non-Italian institution to have bid for the government-held equity.

With a market capitalisation of $32.6bn at the end of last year, BBV claims to be the third biggest bank in the single currency euro zone, after the Netherlands' ING group and Deutsche Bank of Germany. It has increasingly voiced its interest in a firm asset base in Europe complementing its networks in Argentina, Bolivia, Colombia, Mexico and Venezuela.

BBV views an investment in BNL, which would be worth between $822m and $1bn, as a quick entry into Italian banking at a key moment in the sector's consolidation.

The move is its first attempt to secure a significant beachhead in Europe and would open a second front on an ambitious acquisition drive that has involved investments of $3.5bn in Latin America since 1995.

BBV's strategy tracks that of Banco Santander, its chief rival. Santander last year raised its holding in Istituto San Paolo di Torino, Italy's largest bank which is merging with IMI, the Rome-based banking group, from 3 per cent to 7 per cent.

In February, Emilio Ybarra, BBV chairman, told shareholders the group's Latin American franchise represented "a substantial interchange value for any future agreement with European banks". The thrust of BBV's strategy is to invest in European institutions that could in turn become financial partners in its Latin American expansion.

Last week, BBV raised its Latin American profile with an agreement to pay $450m for 55 per cent of Banco Excel Economico, one of Brazil's largest financial groups.

● Banco Santander yesterday pegged back its equity capital to reward shareholders through a reduction in the nominal value of its shares from Pta250 to Pta230. Last year Santander implemented a three-for-one stock split that reduced the nominal value of its shares from Pta750 to Pta250.

NEWS DIGEST

STEEL

Krupp upbeat on full year after strong first quarter

Krupp, the German steel and engineering group that is merging with Thyssen, expects a sharp rise in profits this year after a marked increase in the first quarter, Gerhard Cromme, chairman, said.

The profits increase for the year would match the 19 per cent rise in turnover in the first three months, he said. This increase, which brought first-quarter turnover to DM6.4bn ($3.6bn), should be maintained throughout the year. The current fiscal year will be only the nine months to end-September, since the merged concern will have an October-September operating period.

Order inflow in the first quarter rose 11 per cent to DM7.1bn. The comparative figures exclude Krupp's flat-rolled steel activities, which were transferred to Thyssen Krupp Stahl a year ago. Last year, Krupp lifted net income by 111 per cent to DM437m.

Mr Cromme said the merger, the terms of which are still being negotiated, represented a "unique opportunity" for both companies. "Together, they will be in a stronger position to face the challenges of the next century. The merger will increase the value of the company, which will benefit not only the shareholders but also the workforces."

He confirmed a previous statement by Heinz Kriwet, head of Thyssen's supervisory board, that Thyssen's share of the assets of the merged group – due to start operations in March 1999 but to be back-dated to this October – would be between 65 and 68 per cent. **Andrew Fisher, Frankfurt**

FRANCE

Groups unwind cross holdings

Suez Lyonnaise des Eaux, the French utilities group, and Saint-Gobain, the glassmaker, yesterday announced they had agreed to unwind their cross shareholdings.

Under the terms of the accord, Suez Lyonnaise is to purchase Saint-Gobain's 4.2m Suez Lyonnaise shares for FFr1,010 each, ex-dividend, with a view to cancelling them. Saint-Gobain will buy back 2.3m of its own shares from Suez Lyonnaise at FFr981, ex-dividend. The balance of the utilities group's stake in the glassmaker – a further 2.3m shares – are to be reclassified by the end of this year.

In addition, Suez Lyonnaise is to cancel a further 2m treasury shares, bringing the total to 6.2m shares or 5 per cent of its capital. The move continues a vogue for share buy-backs among large French companies. **David Owen, Paris**

■ Asahi Glass of Japan has agreed to buy the European sheet and autoglass operations of PPG Industries for an estimated Y30bn ($228m), according to the Nihon Keizai Shimbun. The acquisition will double the Japanese company's share of the EU market for these products to about 25 per cent, bringing it closer to top-ranked Saint Gobain of France and UK-based Pilkington.

PPG has annual sales of $450m in Europe and employs 2,750 locally. Glaverbel, the company's Belgian subsidiary, will absorb all of PPG's European assets, including factories in France and Italy and distribution centres. Glaverbel already operates plants in Belgium, the Netherlands, the Czech Republic and Russia. Asahi Glass expects demand in Europe to grow steadily. **AP-DJ, Tokyo**

See World and London Stocks

PORTUGAL

BPI more than doubles

Banco Português de Investimento, one of Portugal's biggest financial groups, more than doubled net consolidated profit in the first quarter to Es9.6bn ($52.9m), from Es4.7bn in the first three months of 1997. A jump in earnings from bond and share trading, from Es1.3bn to Es6.5bn, made a strong contribution. Fee and commission-based income rose 36 per cent, to Es8.4bn. Earnings from lending and borrowing fell 5 per cent to Es17.5bn.

Operating costs fell 1 per cent in absolute terms to Es17.3bn, and from 74 per cent to 58 per cent as a percentage of total banking income. According to analysts, BPI has made substantial savings from restructuring after its expansion into retail banking with large-scale acquisitions in 1991 and 1996. The bank is now merging its three retail networks into a single brand, Banco BPI. **Peter Wise, Lisbon**

FINLAND

UPM-Kymmene books gain

UPM-Kymmene, the Finnish forest industry group, said yesterday it would book a pre-tax gain of FM831m ($154m) on the sale of 2.6m shares in Nokia, the Finnish telecoms equipment maker. "After these sales, UPM-Kymmene owns 11.7m Nokia shares," the company said.

At the end of 1997, UPM-Kymmene was the second biggest registered Nokia shareholder, with 2.4 per cent of the capital and 7.1 per cent of the voting rights.
Reuters, Helsinki

NORWAY

Aker slips to NKr123m

Aker RGI, the Norwegian holding company, said yesterday most business areas improved in the first quarter of 1998, although fishing, machinery and real estate remained disappointing. The group posted a pre-tax profit of NKr123m ($16.7m) for the first three months to March 31 against NKr374m a year earlier. The 1997 figures included a gain of NKr300m from a sale of shares in property group Avantor. First-quarter operating profits grew 55 per cent from NKr158m a year ago to NKr245m.

"This year will be better than 1997," Bjoern Rune Gjeltsen, chief executive, said. He said the performance of Scancem, the cement group, was strong, contributing an operating profit of NKr80m against a NKr62m loss last time. The group's 73 per cent stake in Aker Maritime OL, the offshore supplies company, generated an operating profit of NKr196m, more than double the year-ago figure. However, Aker Stord, the machinery division, remained in the red. **Reuters, Oslo**

FORESTRY

Norwegian group surges

Norske Skogindustrier, the Norwegian forestry group, said yesterday that a positive trend for printing paper, a weaker Norwegian krone and a change in accounting principles helped more than triple pre-tax profits in the first quarter.

The group posted pre-tax profits of NKr405m ($55m) in the three months to March 31, compared with NKr118m in the same period of 1997. Operating profits jumped from NKr170m to NKr439m, while earnings per share between January and March were NKr7.33 against NKr2.60.

The company said the results were lifted by a one-off extraordinary item of NKr62m because of a change in accounting principles linked to management of foreign currency. The group's newsprint division saw operating profits more than double to NKr305m, while magazine paper jumped to NKr155m from NKr75m. **Reuters, Oslo**

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FUND MANAGEMENT EXISTING INVESTORS WIN UNUSUAL EXTRA RIGHTS AS LISTING APPROACHES

AMP reveals share priority plan

By Gwen Robinson in Sydney

AMP, Australia's largest insurance and fund manager, yesterday unveiled a highly unusual plan to enable existing shareholders to sell and purchase shares and to limit the supply to institutional investors before the group's listing on the Australian and New Zealand stock exchanges on June 15.

George Trumbull, AMP's managing director, yesterday said the arrangements for the purchase and sale of shares ahead of listing were "unique". Under the plan, existing shareholders will be able to sell their shares into a special facility before the listing. They can also sell their shares into the market after listing and can apply to buy up to A$1,000 (US$644) worth of extra shares from the facility up to June 3.

Institutional shareholders can also apply to buy shares from the facility, but existing AMP shareholders will have priority, Mr Trumbull stressed.

AMP will announce the base price of shares sold into or bought from the facility when it lists its shares on June 15. The final facility price is to be set on June 22, and will depend on a four-day institutional book-building process from June 9-12 and the market price in the stock's first five days of trading.

In order to balance the interests of AMP's existing 1.7m shareholders with strong institutional demand, the plan entitles shareholders who sell stock before the listing to a proportion of the share price gains in the first week after listing. They will have to wait until after the book-build and the first week of trading to know how much they will receive for their shares.

Similarly, institutions wanting to buy AMP shares will have to wait for the first week to know what price they will pay. They will also be required to pay costs associated with their transaction, another condition designed to encourage many of AMP's existing shareholders to sell quickly and help to meet expected high demand from institutions. Analysts say most shareholders are likely to hold on to their stock, with only 10-20 per cent expected to sell in the short to medium term.

George Trumbull: share arrangements are 'unique'

Under AMP's plan, a minimum of 75m shares, or about 7.5 per cent of the total 1.04bn shares, will be available for institutional investors. If there are insufficient shares left in the facility after shareholders have had first priority, AMP can issue a further 5 per cent, or 52m shares, to institutional investors.

AMP will pay a final dividend for calendar 1998 of 16 cents per share in April 1999, for a payout ratio of 40-70 per cent of after-tax profits.

No interim dividend will be paid in October 1998.

With a prospective dividend/yield of 2 to 2.5 per cent, analysts said AMP was more of a growth stock for investors than a strong dividend play stock.

HDFC advances 12%

By Krishna Guha in Bombay

Housing Development Finance Corporation, India's biggest mortgage lender, yesterday announced a healthy profits increase, giving further proof that the country is not encountering the problems in property lending that plague south-east Asia.

HDFC, which has about half of the Indian home loan market, reported a 12 per cent increase in pre-tax profits to Rs3.5bn ($88m) for the year to March 31.

"Non-performing assets are totally under control – that is our strength," said Deepak Parekh, chairman. Gross non-performing assets accounting for 0.69 per cent of total lending are twice covered by provisions to the contingency reserve.

New loan approvals were up 29 per cent last year to Rs32.5bn, with a 50 per cent increase in lending to individuals.

"The housing sector is in good shape because prices have come down," said Keki Mistry, finance director. "Housing is now more affordable."

However, loans to developers fell, while loans to companies to buy housing units grew at a more sedate 15 per cent. Mr Mistry attributed this to a "slow-down in the corporate sector's expansion plans".

HDFC's efforts to mobilise retail funds bore fruit, with a 26 per cent rise in deposits to Rs44bn, which is 54 per cent of its overall funding needs.

HDFC lends on average only 48 per cent of the value of a property. Mr Parekh said the level of default is possible because India's middle class is averse to borrowing large sums and can call upon the help of relatives in times of need.

He said residential property loans were less risky than general corporate lending at a time when industry was undergoing restructuring. However, HDFC's long-term prospects depend on the progress of reform as India's archaic land use regulations and rent controls currently restrict the free market in land.

Thai insurer ordered to close

By Ted Bardacke in Bangkok

Ratanakosin Insurance, a Thai insurance company specialising in vehicle insurance, was ordered by the Thai government to shut down operations yesterday after the cash-strapped company was unable to raise new funds.

The move highlights the liquidity problems of a number of Thai non-life insurance companies as a result of declining premiums, the falling value of portfolio investments and poor financial management.

Ratanakosin is the first Thai insurer to fail in the country's financial crisis.

The government had given the company until the end of April to submit a rehabilitation plan and begin to sell assets. The cabinet said yesterday that the plan submitted was insufficient and difficult to implement.

The company had assets of about $5m, and its 240,000 policies will be transferred to other private insurance companies.

Analysts said the move would have little effect on the position of the financial industry as a whole, as insurance accounts for less than 3 per cent of total financial industry assets.

PLDT seeking foreign partner

By Justin Marozzi in Manila

PLDT, the largest telecommunications group in the Philippines, is seeking a foreign partner to dilute its majority stake in Piltel, its ailing cellular phone subsidiary.

Edgardo del Fonso, PLDT chief financial officer, said he was looking at forming a joint venture with a foreign group that would hold PLDT's shares in the cellular phone company. PLDT would seek to maintain a majority share in the joint venture, he added.

The decision was part of the group's long-term strategy of putting its non-core fixed-telephony assets into a joint venture and did not indicate a loss of confidence in the cash-strapped Piltel.

"The pace of change in this industry is dizzying, and it is best for us to get foreign expertise," he said. "Some companies have also expressed interest in buying into PLDT, but that is not an option at this stage."

The move follows PLDT's decision last December to step up its stake in Piltel from 31 to 58 per cent in a $114m rescue deal that analysts at the time said stretched the parent company's balance sheet and immediately knocked 6 per cent off PLDT shares.

Piltel suffered heavily last year from exposure to fraudulent subscribers and incurred a loss of 621m pesos ($15.8m). Analysts expect another loss, of about 570m pesos, in 1998.

Piltel
Share price (pesos)

PLDT was seeking to dilute its shares in Piltel to a minority stake to avoid having to consolidate the cellular phone group's unflattering accounts into its own, but Piltel's financial position would be a disincentive to a quick deal, analysts said yesterday.

"Getting a foreign partner at this point, without a turnround in sight, might be difficult, as would be valuing Piltel," said Louie Hilado, telecoms analyst at ING Barings in Manila. The group would be taking on $280m in new foreign debt in 1999 to finance its fixed-line business, he said.

Alex Connor, head of research at Indosuez W.I. Carr, forecast that Piltel's gearing would rise to 400 per cent by 2000.

Shares in Piltel, which lost 18 per cent last week, closed down slightly yesterday at 4.5 pesos. PLDT shed more than 2 per cent to close at 1,070 pesos.

Samsung to cut debt in shake-up

By John Burton in Seoul

Samsung, South Korea's second largest conglomerate, yesterday said it planned to reduce its sprawling industrial empire and concentrate on electronics, finances and services in an attempt to cut its large debt burden.

Samsung will dispose of other businesses through mergers, joint ventures or sell-offs to foreign investors that could raise $5bn and reduce its debts from more than three times to twice its equity by the end of 1999.

But Samsung did not disclose what businesses it might abandon as it sought to focus on four or five core operations.

Its main businesses include electronics, machinery, chemicals, cars, shipbuilding, retail, clothing, property development, and media services.

Analysts believe Samsung will sell its debt-laden shipbuilding business and loss-making petrochemicals operations. The group said no decision had yet been made on the future of its new car subsidiary, which is expected to suffer losses because of a collapse in domestic car sales.

Samsung had earlier indicated it might sell the car business if it failed to take over Kia, Korea's third-largest carmaker that went bankrupt last year.

Samsung has been negotiating with Ford Motor of the US on a possible strategic partnership that would include a joint takeover of Kia, but talks have so far proved inconclusive. Ford is Kia's largest shareholder with a 16.9 per cent stake.

Samsung's announcement came after recent disclosures that its flagship business, Samsung Electronics, suffered a loss of Won610bn ($453m) last year on the basis of stricter consolidated accounts, which are scheduled to be introduced next year for all Korean companies. Samsung Electronics reported a 1997 profit of Won123.5bn using current accounting methods.

Samsung, along with other Korean conglomerates, has been under pressure from the government to focus on core industries to reduce high debt burdens that have contributed to the nation's recent financial crisis.

The group has already reached a preliminary agreement to sell its construction equipment division to Volvo of Sweden for $700m and its forklift operations to Clark of the US for $30m.

Samsung said it planned to reduce its debt burden to 1.25 times equity by 2002 by paying back Won29,000bn in debts over the next four years and selling property assets in Korea and overseas.

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LEHMAN BROTHERS

STEEL PROPOSAL COULD SPARK BIDDING WAR WITH FRANCE'S USINOR

CSN prepares offer for Brazilian rival

By Jonathan Wheatley in São Paulo

The prospect of a bidding war between France and Brazil's biggest steel makers emerged yesterday when CSN of Brazil revealed it was preparing a rival proposal to a bid by Usinor of France for a stake in CST, a small Brazilian producer of steel slabs with large growth potential.

Both bids involve minority stakes in Acesita, a maker of speciality steels which owns 34 per cent of CST.

The Usinor bid comprises an offer of R$389m (US$340m) for 49.9 per cent of Acesita's holding in CST, plus R$235m for a 30 per cent stake in Acesita through a stock issue.

CSN declined to reveal the size of its offer, but an official said it would be "bigger" than Usinor's and would also be made through Acesita.

"The target for both [offers] is CST," he said. The bid would be presented by May 25 at the latest, when an exclusivity agreement signed last month between Usinor and Acesita's controlling shareholders, a group of Brazilian pension funds, is due to expire.

Usinor was unavailable for comment yesterday.

CSN's bid is an attempt to prevent Usinor gaining what could be a crucial position in the expected restructuring of Brazil's fragmented steel industry. The purchase of CST has been widely tipped as the first stage of the industry's consolidation into two or three large groups.

CST exports more than 95 per cent of its output and in the hands of a Brazilian steel maker would be likely to concentrate on overseas markets. It went into profit in 1993 after privatisation the previous year, and is planning to expand into higher value-added products over the next three years.

Under foreign influence, however, CST could be expected to attack the Brazilian market, forcing CSN and Usiminas, Brazil's second biggest steel maker, to seek increased export sales.

Acesita has been looking for investors for at least the past year to help pay off debts of about R$1.2bn.

Usinor's offer was viewed as attractive because it allowed Acesita's shareholders to retain a stake in CST while solving a large part of their debt problem.

Further restructuring of Brazil's steel industry may come with the possible sale of stakes held by Companhia Vale do Rio Doce (CVRD), the world's biggest producer of iron ore. It owns 22.7 per cent of CST, 9.6 per cent of CSN and 7.7 per cent of Usiminas. In an interview in yesterday's Financial Times, Benjamin Steinbruch, CVRD president, said he hoped the company's board would contract a third party to negotiate the sales.

Mr Steinbruch said Brazil's low costs and plentiful raw materials gave it the opportunity nearly to double its $3bn annual exports of steel, but the industry would first have to consolidate.

Starwood ahead of expectations in first quarter

By John Authers in New York

Starwood Hotels & Resorts, the US real estate investment trust (Reit) which last year bought the ITT group of hotels for $10.2bn, and Westin Hotels & Resort for $780m, yesterday announced first-quarter profits ahead of analysts' expectations and said it intended to continue its acquisition campaign this year.

Barry Sternlicht, chief executive, said he expected the company would make about $500m-worth of acquisitions this year.

The company also confirmed that it was interested in buying the Essex House Hotel, which occupies a prestigious site on new York's Central Park South, from Nikko Hotels International, although it thought it would face stiff competition from several other bidders.

Starwood's funds from operations increased to $150m on revenues of $2.1bn for the quarter – a sharp increase on the $33.1m earned on revenues of $173m in the first quarter last year.

On a like-for-like basis, revenues at the company's 179 hotels increased 12.2 per cent to $744m.

Although the results were ahead of the consensus of analysts' estimates reported to First Call, the research group, Starwood's shares fell significantly in early Wall Street trading, off $1⅞ at 50\frac{3}{16}$.

Mr Sternlicht also told investors that the company was considering changing its capital structure. Currently it is a "paired share" Reit, which gives it strong tax advantages when making acquisitions, but it seems likely to lose its tax privileges as a result of moves currently being made in Congress.

Starwood is considering several alternatives to its current capital structure, although it will not make any decisions until there has been a decision in Washington.

Starwood confirmed its interest in Essex House after press reports that Nikko International Hotels, a wholly owned subsidiary of the lossmaking Japan Airlines, had decided to sell it.

However, the company denied this yesterday, in spite of a statement by Japan Airlines last month that it was considering liquidating or selling some of its overseas hotel assets.

The company said that no definite decision had been taken to sell Essex House, one of the best known hotels in New York, and that the hotel was "not on the block".

Eli Lilly chairman plans retirement at year end

By Tracy Corrigan in New York

Randall Tobias: decision to step down influenced by positive prospects AP

Randall Tobias, the man credited with turning around the fortunes of US pharmaceuticals company Eli Lilly during his five-year tenure, plans to retire as chairman and chief executive officer of the company at the end of the year.

During that time, Lilly's market value has risen from $14bn to more than $70bn, even after a spin-off. Sidney Taurel, president and chief operating officer, has been named president and chief executive officer effective July 1, and will become chairman on December 31.

The unexpected decision by the 56-year-old Mr Tobias was influenced by his confidence in the state of the company, in its "very positive future prospects", and in Mr Taurel, who he said was "fully prepared to lead the company". Mr Tobias added that he felt "this is the right time for me to make a transition that I began considering even before I joined Lilly in 1993".

Mr Tobias, previously an external director of Lilly, joined the company in 1993 from AT&T, the US telecoms giant, where he had risen to become vice-chairman.

The board had turned to an outsider, albeit one familiar with the company, at a time of crisis, when the company was afflicted both by the general malaise in the pharmaceuticals industry caused by the Clinton administration's planned healthcare reforms, and by its own weak drugs pipeline and lack of strategic focus.

Under Mr Tobias, Lilly spun off its medical devices businesses in a new company, Guidant, and built the company's research effort, producing successful new products including Zyprexa for schizophrenia and Gemzar for cancer.

The one blemish on his record was the acquisition of PCS, a pharmacy benefits manager, which one analyst described as "just a very expensive mistake, though it never crippled the company". Lilly took a write-down on the acquisition last year.

Mr Taurel, 49, joined the group in 1971 and has been president and chief operating officer since 1996. Born a Spanish citizen in Casablanca, Morocco, Mr Taurel completed his first degree in Paris and only became an American citizen in November 1995.

"He has been the heir apparent since they promoted him to president. He has always had a prominent role," said Alex Zisson, drugs industry analyst at Hambrecht & Quist, who added that he does not expect any radical changes under Mr Taurel's stewardship.

Drinks arm puts Seagram in red

By Edward Alden in Toronto

Seagram, the Canadian beverages and entertainment group, suffered a sharp fall in revenues from its core drinks business as a result of the Asian economic turmoil, and fell into the red in the first three months of 1998.

Increased profits in the company's entertainment business were not enough to offset a 60 per cent decline in revenues from spirits and wine in Asia. The group's third-quarter loss of US$7m compared with profits of US$27m last time. Total revenues were US$2.5bn.

The downturn in drinks sales, although expected, adds to the troubles of the company, which is in the midst of a management shake-up at its flagship Universal Studios property.

Universal's pre-tax earnings increased 31 per cent to US$149m in the third quarter, but the company sold its lucrative television arm to Barry Diller's HSN group – since renamed USA Networks – last autumn for US$4.1bn in cash and shares, a move widely criticised at the time.

Earnings at Seagram's Tropicana drinks arm increased 12 per cent in the first three months.

The group's 2 cents a share loss was slightly better than the 3 cent loss predicted by a First Call consensus of analysts' estimates.

Montreal-based Seagram, controlled by the Bronfman family, has moved into entertainment since acquiring control of Universal in 1995 for US$5.7bn. The group is thought to be near the top of a list of potential buyers for EMI, the UK music group, whose acts include the Rolling Stones and the Spice Girls.

Seagram's net income for the quarter was US$461m, attributable to the after-tax gains on the sale of USA Networks and the company's shares in Time-Warner.

Seagram's stock was trading at C$59.50 mid-day, off C$1.55 from Tuesday's close.

Creating a new sense of community

Sites such as GeoCities also offer mass audiences to advertisers, writes **Christopher Price**

They have shopping malls, places to chat and community workers. They have millions of citizens, who can go to college, find a partner or just hang out.

They are the internet community sites and they are increasingly being seen as the forum that marries the needs of millions of computer users with a platform for commercial success.

"People want to meet other people of similar interests, and advertisers want to reach them – that is the simplicity of the project," says David Bohnett, chairman of GeoCities, which was founded in 1995 and has become one of the biggest internet community groups.

It has 1.7m active members – or "homesteaders" – and 10m individual visitors every month. Besides providing a myriad services (many through deals with other online service companies), GeoCities' members can create and post their own web pages on the site.

This direct interactive personal involvement is seen as giving sites such as GeoCities their sense of community. But the concept is not just about attracting and then delivering a mass audience to advertisers. GeoCities is divided into 60 distinct communities, by both age and interests. This not only creates more easily-identified segments for advertisers to target, but also provides a platform for electronic commerce.

"It's a compelling concept for both advertisers and suppliers," says Bill White, president of internet investment at @Ventures, a US venture capital group for new media and an investor in GeoCities.

Mr Bohnett says the idea for GeoCities was based partly on the success of

Internet community sites are being seen as the forum which marries the needs of computer users with a platform for commercial success.

America Online (AOL), the biggest online community organisation, with some 12m members. The AOL concept was developed before the arrival of the worldwide web and all AOL members subscribe more than $20 a month for the service (although this includes internet access).

The rapid growth in revenues at AOL reflects the success of the community concept. Sales topped $2bn last year, with net income of $49m. Analysts are forecasting third-quarter revenues of $682m, which would be an increase of more than 50 per cent over the same period a year earlier.

Analysts say the dozen or so leading internet community sites are seeing similarly swift growth. None are publicly listed, and are coy about revealing financial details. However, Mr Bohnett says revenues at GeoCities, which is expected to be the first of several public listings from the sector, had revenues in its last financial year of between $15m and $20m.

Their success in attracting millions of members and signing deals with high profile retailers has caught the attention of others in the media.

In particular, internet search engine companies, which help users to find web sites quickly, have been prominent in their courting of the emerging sector.

For example, Yahoo!, the biggest search engine group, has taken an undisclosed stake in GeoCities. In return, Yahoo! gains traffic from GeoCities when its members want to surf the internet. Some have gone further, acquiring community groups outright. Last month, Infoseek bought WebChat Broadcasting System for $6.7m. It followed the $58m takeover of Tripod, a similar site, by Lycos.

In addition, the search engine groups have begun aping the community sites, adding similar services to build brand loyalty and encourage visitors to spend more time with them. Thus, shopping, news and financial services, have begun to appear on the pages of search engine companies.

Peter Friedman, president and chief executive of Talk City, another leading internet community group, says: "The search engines have traffic but little audience franchise. Their average site visit is around 6 minutes, against more than 20 minutes on community sites. Their primary driver is attempting to diversify their offering to advertisers."

Mr Bohnett is sanguine about the search engine groups' attempts to copy the community template. "We have been doing this for three years now, and they have just started. The question is whether they can create the conditions people want in a community site."

Mainstream media companies are also following the situation. NBC, the US broadcasting group, has taken an undisclosed stake in Talk City, which has around 1m members, and is integrating some of its services, particularly entertainment, with those of NBC.

Mr Friedman believes a combination of the internet's rapid growth, the interest of mainstream media companies and the small but growing role of search engine companies, point to a rosy future for the community groups. "We have the model which is right for the consumer, and for the development of e-commerce and sponsorship as well."

NEWS DIGEST

AUTOMOTIVE COMPONENTS

SPX withdraws $3bn takeover bid for Echlin

SPX, the Michigan-based automotive components supplier, yesterday withdrew its $3bn takeover bid for Echlin, apparently leaving the way open for Dana Corporation to acquire SPX's former target. Earlier this week, Dana, based in Toledo and a major car and truck component supplier, announced a rival share-swap offer for Echlin, worth about $3.5bn before the assumption of debt. Directors at Echlin, which had been fiercely contesting the SPX approach, gave their approval to the Dana deal.

John Blystone, SPX chairman, said his company was "disappointed" to lose Echlin, but that "a value-creating acquisition requires pricing discipline". SPX had acquired a small stake in Echlin, which also supplies automotive parts and is based in Connecticut, calculated yesterday that the profit which it was showing on this would "more than cover the costs of our offer".

Although Dana is widely expected to succeed as the "white knight" bidder for Echlin, shares in the Connecticut company still fell sharply on Wall Street yesterday, as the prospect of a continuing bid battle evaporated. By lunchtime, Echlin shares had fallen $2⅝ to 48\frac{1}{16}$. SPX shares, which jumped on Monday, when Dana launched its rival offer, climbed a further $2⅝ to 73\frac{13}{16}$. **Nikki Tait, Chicago**

COMPUTERS

IBM launches new generation

International Business Machines will today introduce a new generation of mainframe computers with double the performance of previous models. The new "servers", as IBM now prefers to call its largest computers, perform at more than 900m instructions per second (mips), when configured with 10 microprocessors. Industry analysts had been predicting performance of about 750 mips.

Although mainframe computers fell out of favour with the advent of networked computers in the early 1990s, they remain the workhorses of corporate information technology. IBM claims its new machines will deliver comparable performance to the latest models from Hitachi, one of its biggest rivals in the mainframe market, but at significant cost, power and space savings. **Louise Kehoe, San Francisco**

TELEPHONY

Teleglobe in retail move

Teleglobe, the Canadian overseas carrier, announced yesterday it is moving for the first time into retail telephone services, a decision that will place it in direct competition with Bell Canada, its largest shareholder, as well as with the local phone companies and a host of alternative carriers.

Teleglobe is losing its 50-year monopoly on all overseas traffic in October as a result of government decisions to open the Canadian market to competition.

The company's network includes submarine cable and satellite links to 240 countries and territories. A new subsidiary, Teleglobe Communications Services, will start immediately offering services to international business callers in Montreal, Toronto and Ottawa. The service will be expanded to consumers and to business customers in Calgary and Vancouver this autumn. Teleglobe has already launched retail services in the US, focusing on business customers in New York and Washington, DC. **Edward Alden, Toronto**

NOTEBOOK COMPUTERS

Apple unveils new model

Apple Computer, aiming to boost flagging sales, yesterday launched what the company claimed were the fastest notebook computers in the world. Apple said buyers of the new PowerBook G3 notebook computers would be able to choose among several options such as screen sizes, microprocessor speeds and memory size. The company is expected to adopt the "build to order" approach pioneered by some of its rivals in a segment which is proving increasingly popular with PC buyers.

Based on a new version of the Motorola G3 microprocessor, which is also at the heart of Apple's latest desktop Macintosh PCs, the new notebooks will outpace all equivalent computers built around Intel Pentium chips and Microsoft's Windows, said Steve Jobs, Apple interim chief executive.

Mr Jobs also announced that Apple will expand its internet online sales operation to reach international customers and US schools. Sales through the internet Apple Store have risen steadily since it went online last year. **Louise Kehoe**

OBSTACLES

Atlantic gulf can drown mergers

By Richard Waters in New York and Graham Bowley in Frankfurt

Giant transatlantic mergers are not easy to pull off – as British Telecom and MCI Communications discovered to their cost last year.

If the failure of that deal exposed the huge gulf in expectations that can sink a union between two foreign partners, the challenges faced by Chrysler and Daimler-Benz are likely to loom even larger.

Unlike BT and MCI, Chrysler and Daimler do not even talk the same corporate language. The German company has made attempts to woo Wall Street in recent years, but vast differences in operational style and culture still exist. That has left large management, financial and structural hurdles in the way of a merger – not to mention technical and regulatory aspects that will complicate the attempted union.

The structural differences are among the clearest. Daimler-Benz is organised along typically German lines, with an executive board of directors responsible for the day-to-day running of the company and a separate supervisory board. The workforce has a representative on the supervisory board – an arrangement alien to most US companies and shareholders.

Doug Fraser, a former chairman of the United Autoworkers Union in the US, said he held out little hope that a merger would lead Chrysler to give similar board-level representation to its American workers. While Daimler may have a close relationship with its German unions, it will be starting off in a shaky position in the US: the company's decision to build a non-union plant in Alabama, its first outside the US, still arouses ire among American car workers.

If Daimler has a tough fight ahead to win over Chrysler's workers, the same may be true on Wall Street. The German company's listing on the New York Stock Exchange five years ago was meant to herald a new dawn in international capitalism, with Europe's biggest economy finally represented on the world's largest stock market. The honeymoon didn't last long: a large reported loss soon after its arrival soured things.

Indications yesterday, however, suggested Daimler may already have won over Chrysler's largest shareholder, Kirk Kerkorian – an investor whose concerns that Chrysler was not paying enough attention to shareholders' interests led to him attempting to take over the company in 1995. One person close to Tracinda, Mr Kerkorian's investment company, said: "They're very supportive of the idea, they hope it goes through."

The deal raises very different questions for Daimler's own largest shareholder – Deutsche Bank, which owns a 22 per cent stake.

There have been suggestions that Deutsche Bank might want to reduce its stake in Daimler, but it has so far avoided doing so because of the large tax bill this would incur. A merger might present an opportunity for Deutsche to shrink its holding more cheaply.

US regulations may also force its hand. As a foreign bank, Deutsche would be allowed to maintain its large stake in an industrial company, a privilege not allowed to a US bank. However, that will hold only if more than half the assets and revenues of the merged Chrysler/Daimler are outside the US. If not, Deutsche would have two years to cut its stake to less than 5 per cent.

Chrysler-Benz offers ideal motor marriage

Both groups have much to gain, with little overlap, write **Haig Simonian and Graham Bowley**

Chrysler-Benz, as the new amalgam in the making is being called, would be an automotive giant without peer in terms of range of products and geographic coverage.

It could trigger a new wave of consolidation in a world motor industry plagued by chronic overcapacity and severe price pressure caused by relentless international competition.

For Daimler-Benz, partnership with Chrysler offers an instant solution to the long-standing dilemma of whether to develop a "second brand" to underpin the upmarket German group's decision to expand into volume carmaking.

Until now, Daimler-Benz has channelled almost all its efforts to become a full-range manufacturer through its core Mercedes-Benz brand. Adding Chrysler could provide the additional marque some of Daimler-Benz's bosses think they need to avoid compromising the more polished Mercedes-Benz image.

A twin-branded company could harness the exceptional product and geographical fit between Germany's leading industrial group and the smallest of the "Big Three" US carmakers.

"Both are in very good shape. They both would fit nicely in terms of regions and products," says Jürgen Pieper, automobile analyst at Deutsche Morgan Grenfell in Frankfurt. "The difficulties might lie in valuing the two companies. There are few big mergers which turned out to be good ones."

Although linking the pair offers few of the obvious cost savings achievable through merging two manufacturers from the same country or region, it suggests the deal may be easier to pull off than some of the failed automotive mergers of the past.

The German group has been diversifying ambitiously in the 1990s into new types of vehicle, such as sports utilities and smaller city vehicles. But it is still best known for its large luxury cars.

The quality image and international familiarity of Mercedes-Benz's three-pointed-star emblem has made the company's executive cars a benchmark and provided profit margins which are the envy of its industry.

But Mercedes-Benz is much more than a European *luxury car specialist*. It is the world's biggest maker of trucks, a leading van manufacturer and one of the world's largest builders of buses and coaches. Although centred in Germany, it has extensive operations abroad, notably in Brazil. And last year, the company opened its first factory in the US for its new M Class sports utility vehicle.

Chrysler, by contrast, is predominantly a US manufacturer. While making a wide range of saloon cars under the Dodge, Plymouth and Chrysler brands, it has become best known for its multi-purpose "people carriers", known as minivans in the US, and the sport utility vehicles made by its Jeep brand.

After brushing with bankruptcy twice in the past two decades – prompting severe retrenchment – Chrysler has started to re-establish itself abroad in recent years.

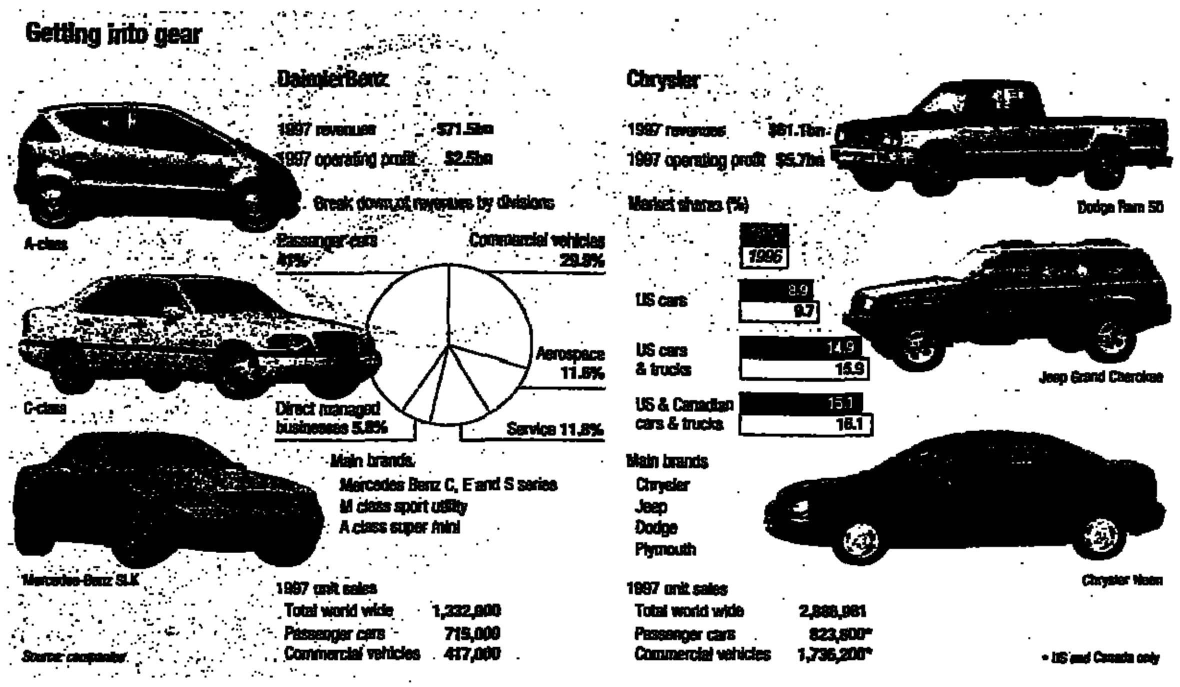
But there is remarkably little overlap between the potential partners. Production at Chrysler's European operations, which made about 70,000 vehicles last year, is just 10 per cent of Mercedes-Benz's car output.

The 60,000 M Class sports utilities the German group will make this year at its new factory in Alabama represent an even smaller fraction of Chrysler's total US output. Even in South America, their activities are complementary.

How well the two groups' cultures would meld is less clear. Optimists argue the result could provide the best of both worlds. Ideally, it would link Mercedes-Benz's immense depth of engineering talent and reputation for quality with Chrysler's leanness and speed.

Both companies would gain in the process. Mercedes has undergone a transformation under Jürgen Schrempp, the Daimler-Benz chairman. But it remains a sloth by Chrysler's far nimbler standards. A further uncertainty is whether Daimler's businesses outside trucks and cars would be included in a new, merged company.

Its aerospace division, Daimler-Benz Aerospace, has returned to profit and is playing a key role in the restructuring of the European aerospace and defence industries. Daimler is also involved in rail systems, microelectronics and financial services.



PROFILES CHRYSLER'S BOB EATON & DAIMLER'S JURGEN SCHREMPP

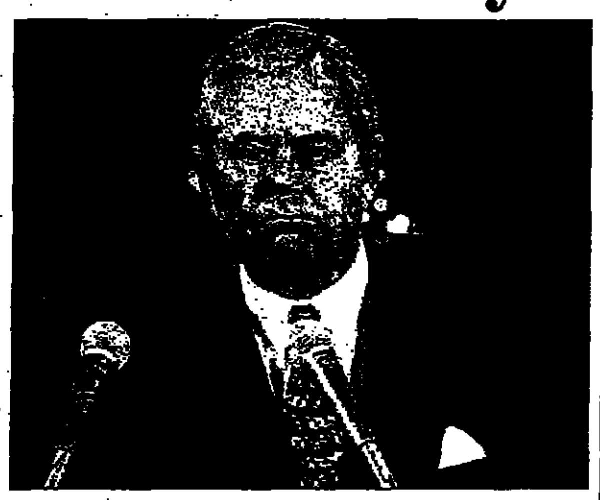
Quintessential car man with down-to-earth style

By Nikki Tait in Chicago

When Bob Eaton was tipped to succeed the high-profile Lee Iacocca as boss of Chrysler in 1992, he was widely described as the quintessential "car man" – much lower in profile than his renowned predecessor, but deeply involved in the industry.

Little over the past five years has occurred to erode that reputation. Chrysler, under Mr Eaton's down-to-earth leadership, has pushed ahead in terms of efficiency and profitability.

He also saw off Kirk Kerkorian, the West Coast investor who attempted a takeover in 1995.



Bob Eaton: reputedly tuned up his first car at the age of 11 Reuters

Mr Eaton, born in Colorado in 1940, reputedly tuned up his first car at the age of 11. He spent almost three decades with General Motors, the largest of the Detroit carmakers, before moving to Chrysler.

Mr Eaton's appointment was something of a surprise, given that Robert Lutz, the flamboyant ex-Ford executive who was then Chrysler's president, had seemed a strong internal contender.

But the Lutz-Eaton combination worked well, with Mr Lutz not only staying with Chrysler but moving on to become vice-chairman.

Mr Eaton, meanwhile, won plaudits for his emphasis on "platform teams" – multi-discipline groups which steer new products through the development stage – and a desire to involve suppliers at an early stage of production development.

Last month, Moody's upgraded Chrysler's debt ratings, partly in the belief that its "low-cost structure and tight capacity management" would see it fare well in an industry downturn.

An aggressive manager who reshaped an empire

By Graham Bowley

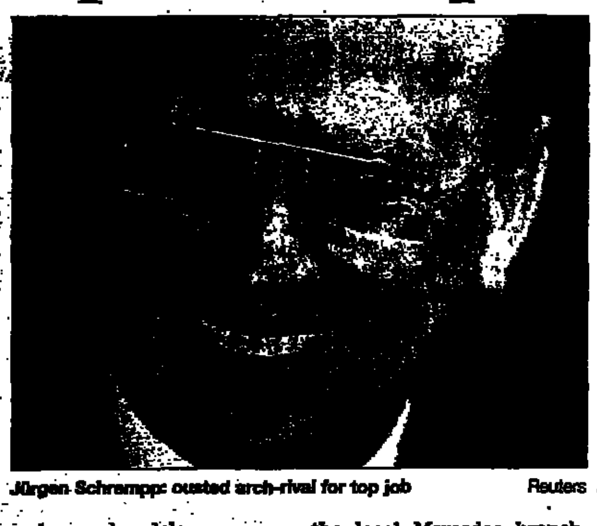
Jürgen Schrempp, 53, has transformed Daimler-Benz, Germany's biggest industrial group, into a fitter, leaner company since he took control as chief executive in May 1995.

He dismantled the diversified high-tech empire built up by his predecessor Edzard Reuter, selling off unprofitable interests such as Dutch aircraft-maker Fokker.

The change in strategy was costly and Schrempp presided in 1995 over one of the biggest losses ever recorded by a European company – more than $3bn.

Since then he has put Daimler's aerospace division, DASA, and its trucks activities on a sounder footing. Daimler has focused on improving the range of cars in its Mercedes-Benz unit.

Last year it began production of the new M-Class sports utility vehicle in Alabama in the US. The smaller A-Class and Smart cars are being brought to the market this year, although after embarrassing delays.



Jürgen Schrempp: ousted arch-rival for top job Reuters

A burly, direct man, Mr Schrempp has the reputation as an aggressive manager. His biggest coup was to oust arch-rival Helmut Werner, then head of Daimler's Mercedes car unit. Mr Schrempp then brought Mercedes more closely under his control.

Born in Freiburg, south-western Germany, he began work as a motor mechanic at the local Mercedes branch. He went back to university, gained an engineering degree and returned to Daimler in 1967.

Under his stewardship Daimler has led the way in corporate Germany in becoming more international. It adopted US GAAP accounting standards and listed its shares on the New York Stock Exchange.

CONSOLIDATION POLITICAL FACTORS HAVE OFTEN DERAILED OTHER MERGER ATTEMPTS

Partnerships dogged by failure

By Haig Simonian in Detroit

Ask most motor industry executives whether there will be as many carmakers in 10 years as there are today, and the answer is invariably "no".

Ask the same people whether their company will be among those to disappear, and the response is always equally negative.

Chronic overcapacity in mature markets, cut-throat competition – reinforced by new entrants – and declining margins have become the three "givens" of the world motor industry.

Trade liberalisation has virtually eliminated protected markets. New technology has reduced product development times, meaning there are virtually no more "niche" products. When one manufacturer devises a winning formula, the others invariably follow.

Such parameters should be the trigger for consolidation. That they have not been so far speaks volumes about the role of the motor industry as a creator of employment and symbol of national economic prowess. In mature markets such as Europe, the US and Japan, politicians go to immense lengths to prevent factory closures and preserve jobs.

Among newly industrialising nations, meanwhile, a domestic carmaker is, like an airline, a potent symbol of national achievement.

Lack of consolidation speaks volumes about the role of the motor industry as a creator of employment and a symbol of national economic prowess

The result is that the catalogue of failed attempts to rationalise production through mergers and alliances is longer than that of successful deals. Apart from publicly known collapses, such as the failed merger of Renault and Volvo, many other aborted secret negotiations have taken place.

The list of known failures shows why the odds are usually against motor industry mergers. Two reasons head the list: political disquiet and management unease.

Concern about control scuppered the Volvo-Renault link at a very advanced stage in 1993. As the transaction neared consummation, Volvo's shareholders grew increasingly uneasy about joining forces with a state-owned French manufacturer.

Management issues caused the collapse of Fiat's various attempts to join forces with other carmakers. In the past three decades, the Italian group has discussed alliances with Citroën, Ford and Chrysler, without ever reaching a deal.

The barrier has invariably been the question of who would run the combined show. In the case of Fiat-Ford, negotiations are believed to have reached a very advanced stage before they collapsed as it emerged both sides thought they would be in charge.

The mergers and acquisitions which have worked are almost always those in which there has been an unquestionably weaker party. The sale of Rover to BMW in 1994 was not a foregone conclusion; many observers thought Honda, which by then had close links with the UK carmaker, would take over. But few believed Rover had much chance of remaining independent in the longer term.

The same applies to the restructuring now transforming South Korea's motor industry. With the domestic and regional market collapsing, the country's hugely ambitious carmakers have been forced to pull back.

SsangYong has been taken over by Daewoo, which is in turn negotiating on selling a significant portion of its shares to General Motors. Meanwhile, the fate of Kia, the country's second biggest vehicle maker, hangs in the balance amid expectations it will be bought by either Samsung or Hyundai.

FOOD PROCESSING FULL YEAR PREDICTION CUT TO LOWEST LEVEL FOR DECADE AS BEET DISEASE AND INCREASED COSTS HIT FIRST HALF

Tate & Lyle forecast slashed on warning

By Maggie Urry

Forecasts for annual profits at Tate & Lyle were slashed by analysts yesterday after the sugar and starch group warned of "substantially" lower full year profits.

The warning was announced with pre-tax profits of £76.5m ($127m) for the six months to March 31, against £30.4m for the same months last year, or an underlying £113.6m before an exceptional charge of £83.2m.

The company also announced it was paying $219m (£132m) for the citric acid business of Bayer, the German chemicals group. The purchase of Haarman & Reimer from Bayer, a world leader in making the acid, a food ingredient, is expected to enhance earnings in 1999.

The business is based in the US and had 1997 turnover of $298m and profits of $8.3m.

Sir Neil Shaw, who is retiring as chairman of Tate & Lyle at the end of June, said the group was searching for a successor. Until one is found, Lynton "Red" Wilson, a director since 1984, will be acting chairman.

The shares fell 24p to 460p, a 5 per cent drop on the day after performing poorly in recent weeks.

A profits warning at the annual meeting in February – after which the shares fell from 548p to 507p – had already led to forecasts for the year to end September being cut to £230m pre-tax, compared to £241.3m in 1997 before exceptional charges.

Forecasts for this year were further cut to £170m-£175m yesterday, the lowest level for a decade.

Analysts tentatively suggested a recovery to £230m-£250m in 1999, well below earlier estimates of £300m or more.

But Sir Neil insisted that, despite short term problems, the group's growth prospects were "truly exciting."

"I have the highest level of confidence in the management team," he added.

Larry Pillard, chief executive, said he was not happy with the results. "There are many areas where, bluntly, we could have done better." Investments would begin to pay off after 1999.

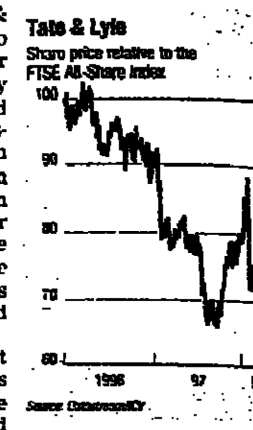
A number of problems had hit first half profits. An improving trend at Staley, the US starch business, had been overshadowed by disease in Tate's US sugar beet harvest while other producers were enjoying a record year. Extra costs were incurred in commissioning an enormous $550m starch plant in France; and a £10m loss in Greece – when a trader failed to deliver grain which had been paid for – pushed the 66 per cent owned Amylum subsidiary into a small loss.

The strength of sterling also affected profits, and the interest charge rose from £29.9m to £41m.

Earnings per share were 4.5p (12.7p diluted). An unchanged interim of 5.3p will be paid as a foreign income dividend.

COMMENT

Tate & Lyle



Calling the bottom on Tate & Lyle has a nasty tendency to prove a triumph of hope over experience. This time only three months elapsed between profit warnings: yesterday an astonishing £60m ($100m) was wiped from profit forecasts. The £170m now pencilled in for the year to September would be the worst pre-exceptional figure for 10 years. During this period sales have multiplied 2¼ times to about £4.5bn. The charitable view is that this commodity business is bound to fall prey to the weather, crop diseases and pricing pressures in its sugar and starch markets. If that is the case, predicting results becomes a lottery. Such poor quality earnings deserve a massive discount to the market. And on that basis, current price/earnings ratios of 18 times for 1997-98 and 13 times for next year do not look low enough.

But the management should never have so little control over the outcome. For instance, delays on a factory project and being cheated of £10m in Greece smack of bad judgment rather than bad luck. The search for an outside chairman and other retirements provide an opportunity to refresh a board dominated by long servers. That might actually help deliver the long-awaited recovery.

J.Sainsbury

David Sainsbury's decision to prefer politics to groceries is richer in symbolism than investment implications. His tenure did coincide with the loss of a seemingly impregnable leadership position to Tesco. But it would be wrong to blame this reversal of fortunes solely on Lord Sainsbury. Errors were made under his watch, but even a grocer red in tooth and claw would have struggled with the legacy of his autocratic predecessor – and uncle – John Sainsbury.

Food retailing became a much more competitive business, and the company was slow to realise that "more of the same" would no longer suffice. Arguably, a non-family member would have found it easier to challenge the legacy of the man who built the business. But that issue is now academic. The 1996/7 nadir forced the company to grasp the nettle, and yesterday's results confirm the stabilisation of its position. Whether George Bull can restore the company to its former glories is moot. Knowledge of the US market, though, may help bolster its still tenuous foothold there.

J Sainsbury chairman resigns to take up full-time role in politics

By Peggy Hollinger and David Wighton

Lord Sainsbury of Turville yesterday announced his resignation as chairman of the family supermarket business that bears his name to take up a full-time role in politics.

His departure after six years as chairman marks the end of an era for J Sainsbury, which has been run by a member of the family ever since it was founded 129 years ago in Drury Lane.

The recently appointed Labour peer, whose time at the helm of Sainsbury saw it cede pole position in UK food retailing to Tesco, said it had been a tough decision, but he had decided to quit to do "the other things that are important to me".

A convert to Tony Blair's New Labour, Lord Sainsbury, 57, said he wanted to spend more time in the House of Lords and in setting up the University for Industry, a flagship government initiative aimed at improving skills in Britain.

There was speculation in Westminster yesterday that Lord Sainsbury, who donated between £1m and £2m of his reputed personal fortune of more than £1.7bn to Labour's election campaign, could be offered a ministerial post.

However, the government is believed to be wary of such a move, following the controversy which surrounded the appointment of Lord Simon, former chief executive of BP, as an industry minister.

Lord Sainsbury's announcement came as the group reported a 12 per cent rise in pre-tax profits before exceptionals to £728m, on sales 8 per cent ahead to £15.5bn. The dividend was raised 13 per cent to 13.9p, on earnings similarly up at 26.2p.

He said he was leaving the business in good shape, showing its highest levels of comparable sales growth for a decade. Like-for-like sales were running 2.8 per cent ahead in the first eight weeks of the financial year.

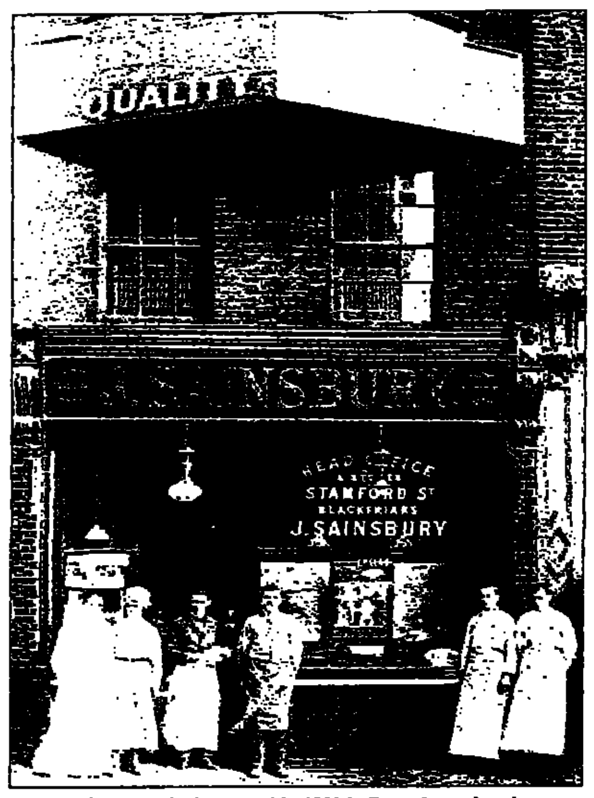
Lord Sainsbury, who two years ago faced calls for his resignation, after the group's third profits warning in four years, said the management had set "very clear targets and we met those targets. That is the test."

Lord Sainsbury said he had restructured the business and put in place a management team to drive sales and profits forward. "I am leaving on a high note but clearly there are more things to be done," he said.

Lord Sainsbury said his departure would make no difference to the family shareholding of about 40 per cent. "The family remain committed and long term shareholders," he said.

The shares closed up 22¼p at 502¼p, lifting the value of the business almost 5 per cent to £9.6bn.

Lord Sainsbury will be succeeded by Sir George Bull, the departing joint chairman of the food and drinks conglomerate Diageo, who will become non-executive chairman. Sir Timothy Sainsbury, a non executive director, the last member of the family on the board, will retire following the transition.



The first Sainsbury's. It opened in 1869 in Drury Lane, London.

BMW to axe distribution contract with Unipart

By John Griffiths

BMW of Germany will not renew a long-standing contract under which parts for its Rover cars have been distributed by Unipart, the components and logistics group.

The contract, which expires in four years' time, is worth several hundred million pounds a year to Unipart, and was the mainstay of the company's business when it was sold by Rover to its managers 11 years ago. Since then, however, the group has been expanding fast into components manufacturing and a variety of other businesses.

John Neill, Unipart group chief executive, said yesterday that revenue from the Rover parts distribution business now accounted for only one-third or less of turnover, which reached a record £1.1bn ($1.83bn) last year with pre-tax profits of £28.6m.

Both Mr Neill and Unipart's institutional investors, led by 14 per cent stake holder Electra Fleming, said they expected growth in other areas to more than compensate for the eventual partial loss of revenue from the Rover contract.

BMW said it wanted strategic control of its parts distribution business and the profits stream stemming from it.

It emphasised that relations with Unipart remained good and that Unipart's role as a components supplier to Rover was unaffected.

Under the terms of the contract BMW and Rover needed to give only two years' notice to Unipart.

The decision was not unexpected to Unipart, which employs around 4,500 people. It has already made rapid progress away from dependency on distribution and now makes parts for Mercedes-Benz, Honda, Toyota and other companies.

It also distributes parts for Jaguar, owned by Ford, and some parts of Volkswagen's and Daihatsu's parts distribution operations in the UK. It also distributes parts for groups such as the Hewlett-Packard and Bull Computers information technology groups.

Other activities include cellular communications services, railway components and a joint venture with the government's Buying Agency that aims to improve services and goods supply chains to National Health Trusts.

Rover acknowledges that it faces a tough task in setting up its own distribution infrastructure, which will involve the establishment of its own warehouses. The move is expected to create about 200 jobs.

There are no indications that BMW intends to seek to dispose of the 20 per cent stake Rover has held in Unipart since privatisation.

GEC Alsthom well packed and ready for flotation

By David Owen in Paris and Andrew Edgecliffe-Johnson in London

GEC Alsthom, the Anglo-French transport and engineering group, yesterday unveiled a solid increase in orders and profits in its last annual results before its flotation next month.

The group is likely to be valued at about £4bn ($6.68bn) in what is expected to be Europe's largest public share offer this year.

The joint venture between Alcatel Alsthom of France and the General Electric Company of the UK announced net income for the year to March 31 of Ecu302m, (£198m) up 24 per cent from the Ecu244m recorded last year.

This was in spite of a Ecu94m fall in financial income after a decrease in the company's net cash. The order book rose by 41 per cent to Ecu11.57bn, having fallen by 8 per cent in the previous year. GEC Alsthom said all its businesses contributed to the growth and said it had not been achieved by sacrificing operating margins.

Yesterday's figures took account of neither the acquisition of Cegelec, Alcatel's engineering and systems activities, nor of the Ecu1.2bn special dividend that GEC and Alcatel plan to take out of the joint venture before flotation. Pro forma accounts including these two items will be provided in time for the flotation, it said.

The company also announced that it had decided to drop the "h" in its name and to seek listings in London, Paris and New York under the name of "Alstom". It described the name-change as a pragmatic response to the difficulty some international customers had in pronouncing four consecutive consonants.

Operating income before payments to GEC and Alcatel rose from Ecu558m to Ecu599m, with transmission and distribution, and industrial and marine providing the main impetus.

Operating income by division was as follows: energy Ecu206m, against Ecu216m; transmission and distribution Ecu205m (Ecu182m); transport Ecu162m (Ecu160m); and industrial and marine Ecu46m (Ecu21m).

The company acknowledged that its energy business faced difficult market conditions, but said its rail business had been held back by provisions against a difficult contract in the UK.

It said Cegelec made operating income of Ecu83m on sales of Ecu3.3bn over the relevant period. The transmission and distribution activities of AEG were consolidated for six months in the 1996-97 accounts and for the full 12 months in the latest period. Sales rose from Ecu9.44bn to Ecu11.11bn.

Powerscreen losses to be investigated

By Robert Wright

The Serious Fraud Office is investigating accounting irregularities at Powerscreen International, the Northern Irish engineer which announced unexpected losses in January.

The SFO appears to have made its decision, announced yesterday, after seeing a draft version of a report by KPMG, Powerscreen's auditors, into the losses. The exceptional £46.6m ($77m) loss was attributed to Powerscreen's Matbro subsidiary, which made specialist tractors. The assets of Matbro and Matbro (NI), its Northern Irish arm, were last week sold for £7m, their asset value, to John Deere, the US agricultural machinery maker.

Shareholders are still waiting for the findings of KPMG's report, which had been expected some weeks ago. On Tuesday Powerscreen announced that Price Waterhouse, which had been expected to review KPMG's findings before they were published, would not now do the work because of a potential conflict of interest.

Powerscreen was for a long time one of the engineering sector's star performers.

Matbro had been one of the star performers within Powerscreen, whose core activity is the manufacture of stone screening and crushing machines. The scale of Matbro's losses caused surprise because it was so large in relation to its £80m turnover. Powerscreen said the losses were a result of mispricing of machines, unauthorised discounts offered to customers and inaccurate and misleading recording and discounting of Bills of Exchange.

Powerscreen's former sales director, chief executive and finance director all resigned in the wake of the losses announcement.

Barclays launches separate equities brand

By George Graham and Alison Smith

Barclays, one of the UK's best known companies, yesterday bypassed its own brand to launch a new equity savings product under the name b2.

The creation of a separate brand is a striking departure for a bank which, more than most UK rivals, has concentrated on promoting its name.

Martin Taylor, chief executive, acknowledged yesterday that the Barclays brand could not yet stretch far enough to reach the customers targeted by b2, forcing the bank to create a new brand.

"If Barclays makes the progress I expect it to in the next five years, it would not be necessary for it to do such a thing."

Existing investors in Barclays Funds, the bank's unit trust arm, are on average over 60. The bank hopes b2 will be able to attract younger savers.

Doug Hamilton, creative director at Wolff Olins, the corporate identity consultants, thought Barclays had made the right decision in giving the new operation its own brand because of the general unpopularity of the high street banks. "This is smaller and more approachable," he said.

He said the b2 logo appeared "a bit funky for a bank – it looks like something you could drink quite happily".

Other banks have bought in brands, such as National Westminster Bank's Gartmore investment funds business or Lloyds TSB's Cheltenham & Gloucester mortgage arm.

The initial b2 product is an equity fund offering an unusual combination of easy access and insurance against a stock market fall.

The administration and hedging strategy needed to provide a rolling guarantee for an investor who can save by monthly instalments and withdraw money at any time is unusually complex, and is expected to require 27,000 separate equity options.

"My hunch is people will find this not entirely easy to copy," Mr Taylor said.

The equity hedging has been worked out with Barclays Capital, the bank's investment banking arm. Mr Taylor said the development of b2 had contributed to his decision to keep the equity derivatives business originally put up for sale last year along with the group's other equities operations.

Mr Taylor said the perceived risk and complexity of equity investment had "driven far too many people to keep far too much money in their deposit accounts when they should really be in the stock market".

Mark Bogard, managing director of b2, said the new brand was intended to occupy the middle ground between the traditional qualities of a bank, such as safety and stability, and the freshness and approachability of new competitors in financial services such as Sainsbury's Bank or Virgin.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Anglo Irish Bank	6 mths to Mar 31♣	-	(-)	21.5	(13.7)	5.41	(4.23)	1.85	July 17	1.65	-	4.2
BSkyB	9 mths to Mar 31	1,060	(899)	203.3	(215.3)	10.8	(11.9)	-	-	-	-	6
Brown (N)	Yr to Feb 28	317.9	(280.5)	41.3♥	(37.1)	19.3	(17.03)	5.25	July 24	4.8	7.5	6.8
Carbo	Yr to Jan 31	86	(98.8)	0.672♠	(0.814♥)	0.52	(0.41)	0.8♀	July 31	0.8	1.3	1.3
Edge Properties	Yr to Mar 31■	23.2	(16.4)	1.55♠	(1.07)	3.8	(2.7)	-	-	-	-	-
Grantchester	6 mths to Mar 31	5.57♦	(2.88)	3.06	(0.845)	1.95†	(1.29)	0.4	-	-	-	1
Lambert Smith	Yr to Jan 31	42.1	(33)	3.8	(1.81)	15.5	(10.9)	3.4	July 1	1.6	4.5	1.6
Ocean Wilsons	Yr to Dec 31	94.8	(77.3)	11.8	(7.38)	19.11	(11.99)	4.5	June 12	3.75	5.5	4.75
Sainsbury (J)	Yr to Mar 7	14,500	(13,395)	719♠	(609♠)	26.1	(22)	10.15	July 24	8.8	13.9	12.3
Scottish Power	Yr to Mar 31	3,134	(2,947)	640	(558)	41.28†⚹	(38.11)	13.6	Oct 1	12.33	20.4	18.5
Tate & Lyle	6 mths to Mar 28	2,201	(2,292)	76.5	(30.4♠)	13	(4.5)	5.3♀	July 14	6.625‡‡	-	18.33‡‡
Select Appoints	3 mths to Mar 31§§$	299	(208)	15.92♠	(8.78)	15	(11)	-	-	-	-	3.5
Stylo	Yr to Jan 31	294.1	(229.8)	0.703♠	(2.82)	0.31	(3.5)	4.66	#	4.66	4.66	4.66
Time Products	Yr to Jan 31	90	(102.3)	17.2♥	(22)	21.17	(26.17)	7.6	July 24	7.5	12.5	12
Whitbread	Yr to Feb 28	3,198	(3,027)	380.9♥	(302.8♠)	61.03	(50.84)	19.2	July 17	17.55	26.02	23.8
Wills Corroon	3 mths to Mar 31	193	(194)	43.1	(45.7)	6.5	(7)	1.75□	July 1	1.65	-	6.6

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Cairngorm Bld Socs	Yr to Mar 31	139.8	(105.1)	0.077	(0.061)	5.4	(4.31)	3	June 5	2.6	4.4	4
Jupiter European	6 mths to Feb 28	163.4	(141.2☆)	0.075	(0.124)	0.16	(0.26)	0.7	June 12	0.7	-	2.5
Lowland	6 mths to Mar 31	451.5	(359.8)	1.3	(0.941)	5.5	(3.97)	4.5	June 11	4.3	-	11.6
Northern Investors	Yr to Mar 31§§	578.6	(435.4)	0.416	(0.448)	10.4	(11.7)	6	July 16	5	8	7
Secs Tst of Scotl	Yr to Mar 31	144.4	(112.9)	13.14	(11.6)	4.07	(3.59)	2.77★	July 3	2.62	3.94	3.75

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ΦAim stock. ♀Foreign income dividend. ♣Irish currency. ⚹Before windfall tax. ‡‡Includes FID enhancement. ■Comparatives for 14 months to March 31 1997. ♦Net rental income. §§Comparatives restated. $US currency. #Payable as 0.1p on October 1 and 4.56p on April 6 1999. □Second interim. ☆At August 31 1997. ★Includes 0.22p payable as FID.

Whitbread unveils $764m investment

By John Willman, Consumer Industries Editor

Whitbread, the UK brewer, yesterday launched the summer results season for the brewers and independent pub companies with pre-tax profits at the top end of expectations.

It also unveiled plans to create 5,000 new jobs in its pubs, restaurants and hotels, though these will be offset by up to 1,000 job losses elsewhere in the company, which recently announced the closure of two small breweries.

The brewing and leisure group said it would invest about £460m ($764m) this year to open up to 80 new pubs and a similar number of restaurants. It will also open three new Marriott hotels – at Heathrow, Manchester, and County Hall, the former seat of London's local government.

Whitbread will also open 25 Travel Inn budget hotels and eight David Lloyd sports centres.

However, a warning that trading over the rainy Easter holiday was below expectations – though ahead of budget – knocked 50p off the group's shares. Investors feared it heralded a downturn in pub sales. The shares later recovered to £10.60p, down 30p on the day.

"Most people think consumer spending will slow," said Mark Puleikis of Merrill Lynch. "And there is still a lot of investment going into the pub market. With sterling starting to weaken, Whitbread could be losing its attractions as a defensive stock."

Full of beans: David Thomas, chief executive — Eye Catchers

The fears also hit Bass shares, down 34p to £10.82p, but left the smaller brewers and pub groups largely unscathed. Scottish & Newcastle, the UK's biggest brewer, also escaped the selling, with shares down only 4p to 924p after it announced its own plans to create 5,000 jobs in its 2,600-strong pub estate.

Despite the market fears, analysts described the Whitbread results as a strong performance. Profits and margins were up in all seven divisions and the group achieved a 16 per cent return on the £440m invested in new outlets in the previous three years.

Operating profits in the year to February 28 were ahead 13.5 per cent to £401.7m. Pretax profit rose 26 per cent to £380.9m, aided by a profit of £26.1m on asset sales. Sales rose per cent to £3.198bn. Adjusted earnings per share increased 14 per cent to 55.69p (48.78p) and the proposed final dividend of 19.2p per share will take the total for the year to 26.02p (23.8p).

PROFILE

Belgian with a passion for expanding businesses

'I hate going through headcount reductions' - Paul Buysse, chief executive of Vickers, talks to **Andrew Edgecliffe-Johnson**

Less than four hours into his job as chief executive of Vickers, Paul Buysse said: "For a Belgian anglophile, this is a dream." He was not talking about his elevation to head the maker of Challenger tanks, Cosworth car engines and – for the moment, at least – Rolls-Royce Motor Cars.

He was pointing at the view from the 29th floor of Millbank Tower – an impressive sweep over the Palace of Westminster, the City and the neighbouring offices of MI5, which he enthuses about as "a perfect building for its purpose – compact, discreet and efficient".

The florid 53-year-old is neither compact nor particularly discreet, but he has made an efficient start at Vickers. His new office was empty apart from a large box of plans and budgets, and he had just finished his first meetings with the divisional chief executives. "I'm an expert now on defence and marine propulsion," he laughs. "I've been here three hours and 20 minutes."

His appointment to take over executive duties from Sir Colin Chandler, Vickers' chairman, took many by surprise. He had previously made headlines only for leaving BTR with £1.14m compensation. He joins Vickers as it is trying to complete a complex auction for Rolls-Royce Motors, and is facing questions about keeping businesses as diverse as engines and marine propulsion systems together.

Mr Buysse, who ran BTR's power drives division from 1994, says he was drawn to Vickers because "the name of the company and the corporate image is so strong".

He is not prepared to say what his detailed plans are, but shareholders hoping for a break-up of the empire or an injection of financial rigour may be disappointed. "I'm in life to grow businesses. I hate going through headcount reductions. Life should be fun, and shrinking businesses is not fun."

He also makes it clear that, despite the box of paperwork, he wants to spend as much time out of his office as possible. The team of divisional managers which BTR assembled in 1991, including Roberto Quarta at BBA and Bob Beeston of FKI, "need to walk around factories and talk to people – we can't run businesses on files or on graphs or on computer spreadsheets." He adds, convincingly: "With all of us, there's a lot of passion."

Such remarks provide the first hint about the reasons for Mr Buysse's mysterious "early retirement" from BTR in January. Did he just fall out with Ian Strachan, the suave numbers man who became BTR's chief executive two years before Mr Buysse left? He is not about to confirm the analysts' suspicions, but he says his time at BTR was "the nicest 10 years of my life – until a couple of months ago". He adds: "Sometimes in life you have differences of focus."

With Mr Strachan talking about "new BTR" versus "old BTR", and with Mr Buysse's mentor, Bob Faircloth, about to retire from the BTR board, it is easy to surmise that Mr Buysse's face no longer fitted. However, he insists there is no animosity: "The first fax I received when I got this job was from Ian Strachan."

He suggests that sharing a board with Sir Colin Chandler may be easier. "That was my major concern when I had my many discussions with him, but the chemistry between us was immediate." Mr Buysse says only one of them can run the business, but hopes that the two will complement each other.

Jeffrey Herbert, the chairman and chief executive of Charter who was among the Vickers non-executive directors who selected Mr Buysse, said that the fact he had already run a business with annual sales of £1bn helped.

Vickers had sales of £1.2bn last year, including Rolls-Royce Motors, and Mr Herbert said Mr Buysse's more international exposure would be welcome.

Mr Herbert, another engineer, says: "What you have in Paul is a professional industrial manager. He has a very strong operational background and all of us on the board felt at this stage that was essentially what Vickers needed."

Some analysts are cautious about his strategic record, saying that although he assisted in BTR's acquisition and integration of Hawker-Siddeley, he made few large purchases or disposals himself.

Mr Buysse talks with affection of the BTR managers fostered by Owen Green in his last years in charge of the conglomerate. "Our intention was to be a very strong, super-professional management team. We brought that share price to 400p collectively and we are damned proud of it."

He does not mention the subsequent five-year slide in the shares, or that, at just below 200p, they are below where they were in 1991.

Mr Buysse's recollection of events is shared by ex-BTR executive Bob Beeston, who says: "All this bloody nonsense about BTR not growing the business isn't true. Paul Buysse knew how to grow a business and he certainly knew how to make a profit." Equally, analysts at Merrill Lynch credit Mr Buysse's power drives division with generating the best organic growth of any of BTR's engineering businesses between 1992 and 1996.

He has received recognition of another kind, being knighted by the King of the Belgians in 1994 for his services in turning around BTR's Belgian businesses, such as Hansen Transmissions and Dunlop Conveyor Belting.

Three of his five children are in Belgium, as is his house (although he has been house-hunting in London) and he says: "I think it is a great country."

He adds, however: "My country is going through a shock: If you talk about restructuring and repositioning yourself for the future, this is what you will find in Belgium." He faces more of the same at Vickers.

Willis warns on margins

Willis Corroon signalled that margins in the highly competitive world of insurance broking may get worse before they get better. Reporting a 6 per cent fall in first quarter 1998 profits, the group said yesterday it was scaling back its presence in North America, where competition has been fierce, writes Christopher Adams.

The closure of Plum, a US professional liability subsidiary, will result in a £30m ($50m) goodwill write-off, to be charged against second quarter profits. John Reeve, executive chairman, said significant investment would have been needed to return it to profitability.

Pre-tax profits slipped from £45.7m to £43.1m, hurt in part by the recent strength of sterling. However, underlying growth in revenue was minimal as premium rates continued to slide for many classes of business.

The latest renewal season had witnessed reductions of up to 50 per cent in the price of aviation insurance. Marine markets also suffered steep declines. Mr Reeve added that more of the group's revenue was coming later in the year as clients shifted to longer-term contracts.

Mr Reeve said sterling would depress full year profits by £5.2m if exchange rates remained unchanged.

Brussels approves CU and GA deal

By Christopher Adams, Insurance Correspondent

European competition regulators have cleared the £14bn ($23bn) merger of Commercial Union and General Accident, the two composite insurance groups.

Yesterday's decision by the European Commission to wave through the deal, announced in February, bodes well for other large insurers in continental Europe that are also planning to join forces.

The commission has yet to rule on the acquisition by Germany's Allianz of Paris-based Assurances Générales de France.

Brussels extended by two weeks until May 8 its initial month-long review of Allianz's acquisition in order to discuss the position of Coface, the French export finance insurer owned by AGF. However, analysts believe the commission is near agreement with the companies.

BAT Industries, which is to combine its insurance and asset management business with Switzerland's Zurich Group, is due to publish listing particulars for the new group on May 18. It has already obtained clearance from the commission.

CU and GA have relatively little overlap in continental Europe and the highly competitive UK market is too fragmented to pose competition concerns. Regulatory clearance is nevertheless a significant and time-consuming hurdle for all three insurance deals. The two British insurers have also secured regulatory approval in other territories, including Hong Kong and Australia, but are still waiting in the US. They said yesterday that the merger would be completed in June.

Both companies are expected to publish further details of how the combined group might look after the merger with first quarter results next week. Several senior appointments have been made. Ian Balfe of CU will head operations in Australia and Patrick Wale of GA will run the business in south-east Asia.

Analysts will also be looking for indications of what future strategy will be. The group is likely to focus its attention on building a stronger presence in continental Europe, where the prospect of monetary union next year has contributed to a wave of mergers and acquisitions, the most recent of which was Axa's takeover this week of Royale Belge.

GA and CU both want to expand in Germany. For its part, CU is already acquiring Berlinische Lebensversicherung, a regional life assurer. Even then the two companies' combined market share of the German life market will only be 1-2 per cent.

MANAGEMENT COMPANY REORGANISATION

Raytheon absorbs the post-merger collateral damage

Alexander Nicoll chronicles the transformation which industry consolidation has brought about at the US missile systems group

"This area right here is in a little bit of transformation right now." The apologetic manager runs the section that makes Patriot missiles, but what he says applies to almost any part of the large plant in Andover, Massachusetts, owned by Raytheon, the US electronics group.

The changes are part of an extensive reorganisation involving 80 factories across the US after Raytheon's purchase last year of the defence businesses of Hughes Aircraft and Texas Instruments.

The US defence industry is trying to reduce its cost base drastically because of the sharp drop in Pentagon spending on weapons this decade. There have been many takeovers, but Raytheon believes its consolidation effort is more radical than anything attempted by its competitors, which include Lockheed Martin, Northrop Grumman, TRW, ITT Industries and Litton Industries.

Raytheon put its electronics interests together with those of Hughes and TI to form Raytheon Systems, which accounts for three-quarters of its $20bn annual revenues. Within Raytheon Systems are five new divisions focusing on its different areas of business.

Of 80 factories, 20 are being closed and a further six closed partially, reducing square footage by 20 per cent to 34m. About 9,000 out of 110,000 jobs are being lost.

Although the merger with Hughes took effect only last December, none of the organisational structure of any of the three previous components is left. Within three months, 640 senior managerial appointments had been made. Raytheon Systems is led by Bill Swanson, a Raytheon man, with Ken Dahlberg, who came from Hughes, as his number two. "Consolidations in our industry have been done in a stove-pipe fashion – everything keeps its identity," Mr Swanson says. "We knew we had a shot to do this with a clean sheet of paper."

In January, they announced a detailed plan in which the fate of every single plant was spelled out.

Like many other industrial companies, Raytheon Systems is establishing centres of excellence. But the reorganisation is complex, and this is the reason for the massive changes at Andover which will actually result in hardly any change to its 3,900 staff numbers.

'None of us knew how this business was going to end up and who was going to do what'

The various components of the group previously manufactured circuit cards at 19 different sites. Andover is one of only two plants which will continue to make them, and it will expand in this area. Its machine shop is gearing up to be one of four – down from 15 – making metal parts.

But it will cease turning out 26 miles of cables each day, since they will all be made in St Petersburg, Florida; and it will no longer make printed wiring boards as this will be done only in Austin, Texas.

The biggest wrench will be reorganisation of missile production. Andover turned out 130 Patriot missiles a month in 1990-91, when they were used to knock out Iraqi Scud missiles. After the Gulf war, 3,000 workers cheered President George Bush when he visited the plant. But its Patriot work, mainly upgrading of existing systems, dries up temporarily in June since most customers have all they need.

Andover is keeping the Patriot facilities – and will go on making and upgrading Hawk surface-to-air missiles. But assembly of Advanced medium-range air-to-air missiles (Amraam) as well as Sidewinder and Sparrow missiles is being concentrated in Tucson, Arizona. (Raytheon makes the forebody and systems for missiles, but not the explosive.)

Scotland is a beneficiary of these changes, since control systems for Amraam missiles will now be made only at the group's plant at Glenrothes, Fife.

Mr Swanson says the restructuring was a team effort among top executives of the component groups: "All of us put our collective talents together, and none of us knew how this business was going to end up and who was going to do what."

The lesson both Raytheon and Hughes learned from previous acquisitions was speed. "The constant theme out of all this is do it faster," says Mr Dahlberg.

Mr Swanson says: "The real key is you do your planning, you make your hard decisions, and you do them all at once. It's like the old thing with the Band-Aid, you can pull it off slowly, or you pull it quick. It's better to do it quick."

Consolidation is more, however, than shuffling work between factories and cutting overheads through slimmed management and administration.

It involves intense teamwork between divisions to improve processes: making the most of the leanest manufacturing techniques within the group, and striking new relationships with thousands of suppliers to take advantage of bigger size.

This means, according to Brian Cullen, head of the intelligence and information systems division, that integration produces much more than a one-shot gain. Mr Cullen says: "Everybody is thinking at a new level, and this rolls forward in lots of ways, for example to the supplier base and in improving cycle time. Everybody's expectation of what we can do changes."

Raytheon is also aiming to diversify its business base since growth in revenues from Pentagon contracts is unlikely to be spectacular given spending constraints. It is hoping for much higher growth from commercial electronics – air traffic control systems are among its products – and from exports.

But the biggest customer remains the Pentagon. As a condition for approval of its acquisitions, Raytheon guaranteed annual recurring savings of $1.7bn to the government, including price cuts for the Amraam missile. It is also working with the Pentagon, alongside other manufacturers, on the government's reforms of its acquisition methods.

Raytheon's consolidation will not stop. Mr Swanson says: "None of us know of a competitor who's done this. When you ask us why we're doing it, it's to gain a strategic advantage. After we do it, our cost structure is going to be lower, we're going to be more competitive, more focused. People are going to have to go this way, and they're going to have to catch us. But we won't stop there. We'll be prepared in a year and a half to tell you what round two is."

Raytheon: bigger company, fewer ...

Raytheon Systems

Three previous companies' plants versus new structure

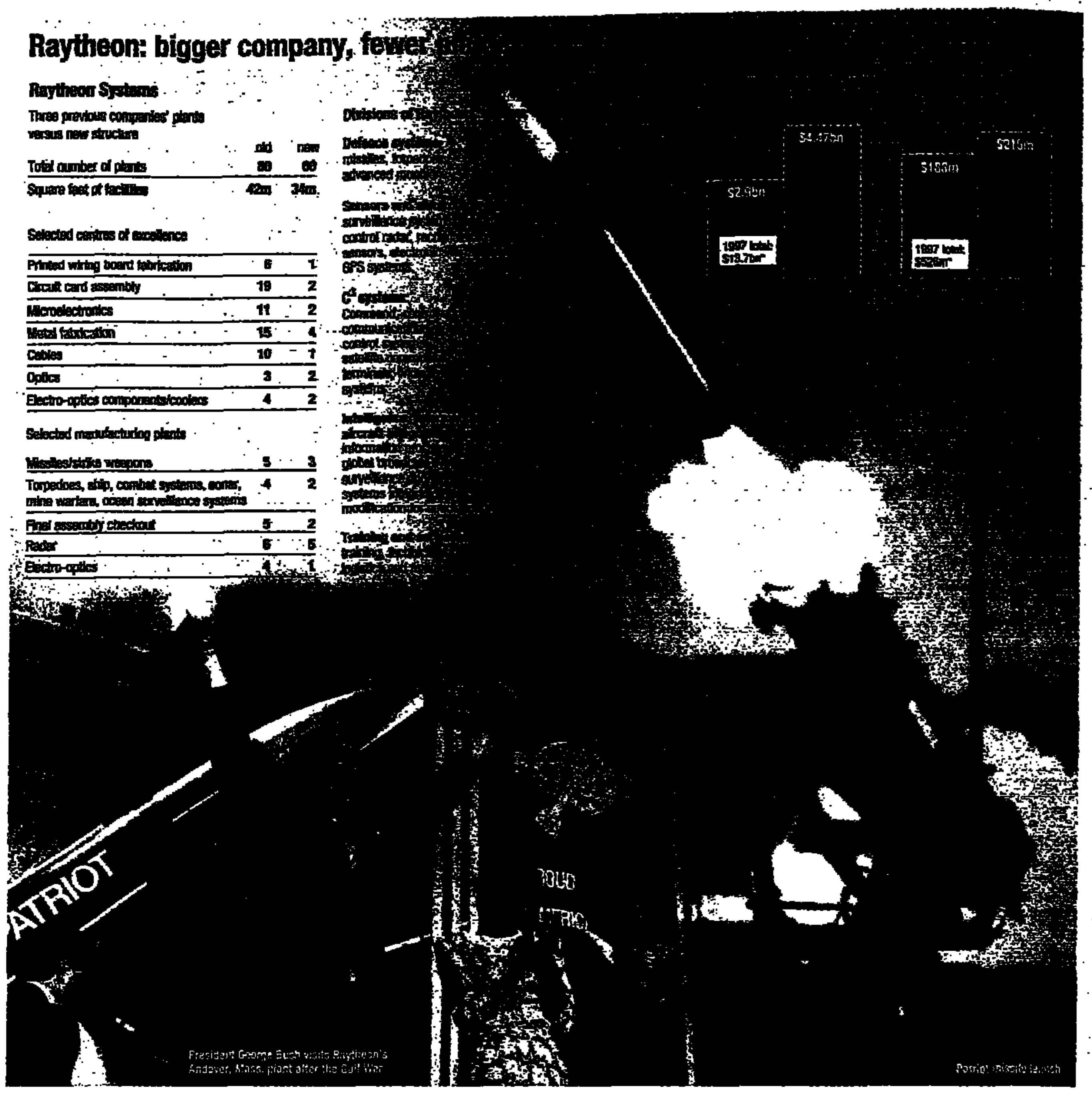
	old	new
Total number of plants	80	60
Square feet of facilities	42m	34m

Selected centres of excellence

Printed wiring board fabrication	6	1
Circuit card assembly	19	2
Microelectronics	11	2
Metal fabrication	15	4
Cables	10	1
Optics	3	2
Electro-optics components/coolers	4	2

Selected manufacturing plants

Missiles/strike weapons	5	3
Torpedoes, ship, combat systems, sonar, mine warfare, ocean surveillance systems	4	2
Final assembly checkout	5	2
Radar	6	5
Electro-optics	4	1



President George Bush visits Raytheon's Andover, Mass. plant after the Gulf War

Patriot missile launch

MARKETING PAN-EUROPEAN CAMPAIGNS

Border crossings

Ad campaigns are feeding companies' appetites for growth, says **Alison Smith**

Captain Birds Eye's endorsement of fish fingers has been an integral part of British childhood for more than 30 years. But for at least 15 years he has also starred in advertisements that cross geographical borders. The latest campaign – featuring a younger, clean-shaven captain – is running in 10 European countries and will be launched in Poland and Portugal in September.

Ammirati Puris Lintas, the agency behind the ads, says that in the early 1980s, when the frozen food convenience market in continental Europe was taking off, the internationally recognisable figure of a sea captain gave authority to the products.

The captain is an example of how an advertisement intended for one national market can be used across a continent. Along with an increasing number of campaigns created to work in several countries, such ads are feeding companies' growing appetite for European-wide advertising.

"Today, pan-European campaigns account for up to 40 per cent of what we do. Five years ago it might have been half that amount," says Fernan Montero, chairman of the European operations of advertising agency Young & Rubicam.

"About 90 per cent of our media spending is now on regional advertising, while five years ago this would have been 20 per cent," says Cinzia Morelli-Verhoog, European marketing director of Reckitt & Colman, the household goods and pharmaceuticals group.

The increase in European-wide campaigns is prompted by the companies with products to advertise and the convergence of European tastes and lifestyles.

Ms Verhoog says Reckitt & Colman's shift to campaigns spanning broader markets rather than individual nations came with its reorganisation from being "country-driven to being category-driven".

A survey of multinational advertisers by Conquest, the European-based advertising agency, found that cost efficiencies and standardising brand strategies were the main reasons for conducting international advertising.

Standardising cross-border brand positionings is possible because far-flung consumers are becoming more alike – particularly among young people and business executives, but among others too. "It is true for mainstream segments, such as blue-collar workers," says Mr Montero. "They share common values and characteristics."

Some categories of product are clearly more suited to common treatment than others. Terry Rosenquist, president of multinational clients for APL, says European-wide advertising works well in home and personal care products such as detergents and deodorants.

It can also work where the product is new, such as information technology, says Luca Lindner, Conquest's chief operating officer.

Devising a pan-European campaign may be easier for new products even in the difficult area of food, where cultural differences still prevail. For example, earlier this year Frito-Lay, the PepsiCo snack food division, created a single campaign for Doritos, the tortilla chip brand introduced in Europe less than five years ago. But international advertising for its brands of crisps – much more established European snacks – is confined to a one-off campaign to run during the football World Cup in June.

Where there are similarities among the markets, one approach used by advertisers to make minor changes to pan-European campaigns is to reflect national preferences. Y&R's advertising for Milka, the chocolate bar, uses the theme of Alpine heritage in different ways. "For Germany, Austria and Switzerland the appeal is straightforwardly emotional, while for France it is more tongue-in-cheek," says Mr Montero.

"It is not just a matter of whether you eat pasta, but how you eat pasta," says Mr Lindner.

Multicultural campaigns can also be tricky when individual countries are at different stages of familiarity with a product.

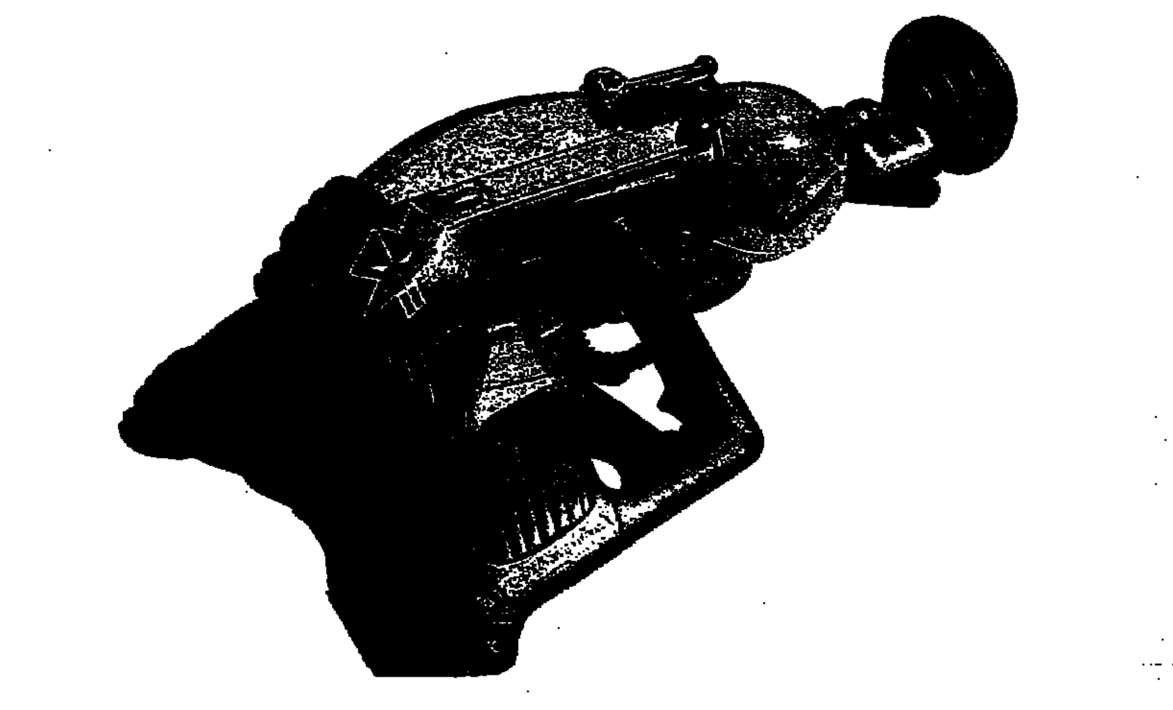
Pressures to focus marketing efforts on international brands and campaigns are set to intensify and the pace of these corporate demands may outstrip genuine convergence among consumers.

Captain Birds Eye and his like will have to steer a careful course.

Fits the bill: the new-look Captain Birds Eye

TECHNOLOGY WORTH WATCHING

Personalised guns aimed at improved safety



Personalised guns that can be fired only by their owners have become a big demand of US anti-gun lobbyists.

In demonstrations last weekend, the anti-firearms group Silent March called on gun makers to incorporate such technology in their products to prevent accidental death by children playing with firearms, and to prevent stolen guns being used.

Colt, the US firearms maker, plans to become the first to offer personalised guns. "We hope to ship the first ones next year," says Marc Fontaine, chief operating officer. Colt says it has already built a prototype, and hopes to come up with a more refined version in June. After extensive testing, the product should be ready for marketing early next year.

The first personalised guns will use radio frequencies to send a message to a computer chip embedded in the weapon. The owner will wear a watch or wristband that sends an activation signal to the gun. When the gun is outside a pre-set range of the wristband – adjustable from 1in to 1m – it shuts down.

Radio frequency technology has been around for a long time, but creating a durable product was a challenge. "Small explosions going off at the end of your hand is not generally a healthy environment for electronic devices," says Mr Fontaine. "We had to make sure the chips would survive that and keep working through the life of the gun."

Colt's product was created for law enforcement, after a National Institute of Justice survey found 18 per cent of police officers killed in the line of duty in the US are shot with their own gun or that of their partner. However, with mounting interest in gun safety, Colt sees strong commercial potential as well. The guns will cost between $200 and $300 more than a normal weapon, but the company says the differential will narrow as demand picks up.

Guns controlled by radio frequency are already being criticised by consumers who feel wearing a band is too restrictive.

Colt is working on a second-generation product that would use fingerprints to identify the gun owner. The firearm would be equipped with a tiny computer screen at the trigger. If the print on the screen is not recognised by a chip inside the gun, it will shut down. The company is also experimenting with voice recognition.

Gun manufacturer Smith & Wesson worries that personalisation technologies will make firearms less effective as defensive weapons. Yet with pressure increasing on gun manufacturers to build safety features into their products, gun personalisation may become a routine firearms technology.

Victoria Griffith

IN BRIEF

Cosmic burst of gamma rays brightest since the Big Bang

Astronomers have detected the most powerful explosion since the creation of the universe in the Big Bang. A recently detected cosmic gamma ray burst – one of the mysterious bursts of radiation that occasionally bombard the earth from space – was as bright as the rest of the universe, according to today's Nature, the international science journal.

The energy released in the flash roughly equalled that radiated by our entire galaxy over a couple of centuries, say astronomers from the California Institute of Technology, Columbia University and other institutions.

The burst originated from a galaxy about 12bn light years (each of which is 5,900bn miles) from earth. The origin of bursts like these remains a mystery. One possibility is that the rays are caused by neutron stars coalescing. But the scale of the latest blast would need a more powerful explanation, possibly involving the death of giant stars, or involving neutron stars being swallowed by black holes.

Caltech: US, 6263954010; http://astro.caltech.edu

Plants pick up liquid differences

Plant fibres have been used to mop up spills for decades. But the untreated fibres do not discriminate between liquids. They pick up oil and water equally readily, making it difficult to remove traces of oil in large volumes of water. Researchers at the BioComposites Centre at the University of Wales have tried to overcome this problem by chemically modifying wood or plant fibres.

University of Wales, Bangor: US, tel (0)1248382004; fax (0)1248383268.

Dental amalgam alternative

The UK government's warning about the risks to pregnant women of mercury poisoning from fillings is just one of a number of health warnings relating to dental amalgam.

Degussa, the German chemicals company, has come up with an alternative to amalgam, which may have advantages over the alternatives already available. It says its tooth-coloured filling material is tougher, less likely to shrink and more biocompatible than existing plastic composites. It releases calcium and phosphate ions to protect against further decay of the tooth.

The filling, called Definite, is made of chains of silicon and oxygen that are combined in such a way that no small, residual molecules can be released in saliva – which is an occasional cause of allergies in conventional composites.

Degussa: Germany, tel 6181595693; fax 6181595666.

Child flu nasal vaccine promise

A nasal spray vaccine is showing promise as an effective way of immunising children against flu, according to US researchers.

Researchers at Vanderbilt University Medical Center in the US found the vaccine stimulated production of local antibodies in the nose, where the virus often enters the body. Further studies are under way to find out if the presence of the nasal antibodies stops the virus from spreading to the rest of the respiratory system.

Vanderbilt University Medical Center: US, tel 6153224747; matt.scanlen @mcmail.vanderbilt.ed

EURO PRICES

EQUITIES

Daimler talks boost car shares

EUROPEAN OVERVIEW

By Martin Dickson, Financial Editor

News that Daimler-Benz, the German automobile group, was in merger talks with Chrysler of the US dominated European equity markets yesterday, pushing trans-European indices modestly higher.

The surprise discussions pushed up vehicle shares, with the automobiles sector of the FTSE Eurotop index ending the day 5.43 per cent higher.

But the impact was broadly neutralised by a dull tone elsewhere, and the FTSE Eurotop 300 index finished the day just 1.91 points higher at 1224.81.

The narrower Eurotop 100 closed up 10.88 at 2813.31, while the FTSE Eblock 100, which tracks companies from European monetary union "in" states, finished at 1003.72, up 0.76 points.

European bond markets traded sideways to lower for much of the session, with a small upturn towards the end of day after the US Treasury announced plans to change its refunding programme, including the cessation of three-year note issues. German bunds ended in positive territory, with the benchmark 2008 issue quoted at 101.98, up from 101.97, to yield 4.983.

Emu "in" currencies traded flat in a narrow range, with the D-Mark strengthening against sterling and the dollar on expectations that continental interest rates will rise sooner than Anglo-Saxon ones.

News of the Chrysler talks sent shares in Daimler-Benz Ecu 7.7 higher to Ecu 98.25, while Deutsche Bank, which owns a 22 per cent stake in Daimler, rose Ecu 3 to Ecu 75.79.

Car manufacturers across the region benefitted from expectations of further consolidation. Peugeot was up Ecu 7.3 at Ecu 168.41 and Volkswagen rose Ecu 4 to Ecu 732.04.

Fiat of Italy and Renault of France announced plans to pool their bus-making interests in a 50-50 joint venture that would be the second-largest bus manufacturer in Europe behind Mercedes-Benz. Fiat ended up Ecu 0.3 at Ecu 4.03, while Renault was Ecu 2.9 higher at Ecu 46.42.

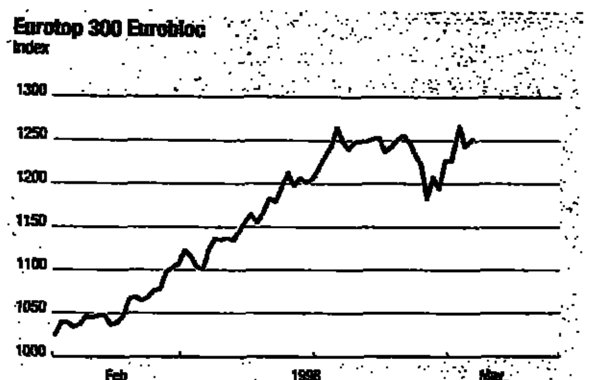
The electronics and electricals sector rose 1.71 per cent, with a good performance from Ericsson, up Ecu 1.6 at Ecu 49.68, after a contract announcement and a strong showing by telecom-related stocks on Wall Street. Britain's GEC was up Ecu 0.4 at Ecu 7.75 on currency factors, while Alcatel Alsthom closed down Ecu 0.7 at Ecu 177.04 on light profit-taking following its first-quarter sales figures.

The media sector closed 0.66 per cent higher, though PolyGram leapt Ecu 4.9 to Ecu 44.15 amid speculation about the company's future. Philips, the electronics group, said it was evaluating various strategic options over its stake. Analysts said the sale of PolyGram to an industry buyer was the most likely outcome. Philips rose Ecu 1.9 to Ecu 87.22

British Sky Broadcasting closed up Ecu 0.1 at Ecu 6.39 after announcing third-quarter figures in line with expectations.

Poor performing sectors included breweries and pubs, down 2.33 per cent.

Eurotop 300 Eurobloc



Source: FTSE International

3 THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%	Open	Sett price	Change	High	Low	Est. vol	Open int.
May	-	95.740	-0.010	-	-	0	0
Jun	95.745	95.740	-0.010	95.745	95.735	664	12466
Jul	-	95.740	-0.010	-	-	0	0
Sep	95.745	95.760	+0.005	95.760	95.745	304	17257

OTHER INDICES

	May 6	May 5	May 4	1998 High	1998 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	3285.73	3279.45	3320.83	3396.00	2574.51	3396	2976.42
DJ Euro Stx 50	3252.55	3261.38	3309.96	3345.86	2466.81	3345.86	2865.52
MSCI Europa	1214.54*	1217.92	1228.63	1240.82	980.50	1240.82	510.78

Source: Extel/part of FT Information. *Subject to revision next day.

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

May 06 National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Ecu)
FTSE Eurotop 300	1224.81	+0.16	+1.91	1.82	9.30	1244.09
FTSE Eurotop 100	2813.31	+0.39	+10.88	2.01	3.36	994.97
FTSE Ebloc 100	1003.72	+0.08	+0.76	1.58	0.62	1004.35
FTSE Eurotop 300 Regions						
Eurobloc	1251.30	+0.11	+1.31	1.56	3.73	1260.06
UK	1158.77	-0.11	-1.27	2.77	16.71	1196.50
Europe Ex-Eurobloc	1207.29	+0.21	+2.48	2.27	13.50	1233.99
Europe Ex-UK	1262.52	+0.30	+3.73	1.48	5.09	1271.07
FTSE Eurotop Industry Sectors						
RESOURCES	1034.25	-0.25	-2.59	2.64	7.15	1058.37
Extractive Industries	994.46	+0.30	+2.97	2.82	0.00	994.46
Oil, Integrated	990.52	-0.25	-2.47	2.64	0.00	990.52
Oil, Exploration & Prod	986.88	-1.86	-16.61	2.48	0.00	986.88
GENERAL INDUSTRIES	1195.09	+1.45	+17.05	1.79	8.87	1207.50
Construction	1071.63	+1.22	+12.94	2.86	0.00	1071.63
Building Matls & Merchs	1025.48	+0.88	+8.97	2.59	0.00	1025.48
Chemicals	985.45	-0.62	-6.12	2.19	7.89	993.29
Diversified Industrials	1013.83	+0.41	+4.14	2.09	0.00	1013.83
Electronic & Elect Equip	1033.15	+1.71	+17.34	1.61	0.00	1033.15
Engineering	1011.79	+0.50	+4.99	2.02	0.00	1011.79
Paper, Pckg & Printing	1030.14	+0.86	+8.75	2.29	0.00	1030.14
CONSUMER GOODS	1160.43	-0.48	-5.84	1.59	8.37	1181.59
Automobiles	1055.94	+5.43	+54.35	0.85	0.00	1055.94
Alcoholic Beverages	1000.10	-0.30	-3.01	2.32	0.00	1000.10
Food Producers	998.55	-0.69	-6.97	1.56	0.00	998.55
Household Goods & Texts	1002.17	-1.13	-11.46	1.28	0.72	1002.88
Healthcare	974.31	-0.11	-1.11	2.38	0.00	974.31
Pharmaceuticals	1009.05	-0.38	-3.89	1.32	0.00	1009.05
Tobacco	993.86	+0.20	+2.01	4.30	0.00	993.86
SERVICES	1156.58	+0.03	+0.40	1.89	7.10	1173.00
Distribution	998.26	-1.31	-13.22	0.90	0.00	998.26
Leisure & Hotels	1003.29	-0.16	-1.59	2.43	0.00	1003.29
Media	997.04	+0.66	+6.54	2.32	0.00	997.04
Retailers, Food	987.85	+0.08	+0.77	2.01	0.00	987.85
Retailers, General	991.15	-0.68	-6.78	2.28	0.00	991.15
Telecommunications	1004.78	+0.31	+3.08	1.59	0.00	1004.78
Breweries, Pubs & Rests	965.65	-2.33	-23.04	2.76	0.00	965.65
Support Services	1002.02	+0.24	+2.39	1.30	0.00	1002.02
Transport	978.53	-0.20	-1.98	2.27	0.28	978.81
Information Technology	1016.49	+1.24	+12.41	0.33	0.00	1016.49
UTILITIES	1304.68	-0.10	-1.32	3.32	23.71	1344.73
Electricity	995.90	-0.21	-2.14	3.43	0.00	995.90
Gas Distribution	995.72	+0.67	+6.66	1.88	83.72	1086.31
Water	977.48	-0.75	-7.36	5.20	0.00	977.48
FINANCIALS	1367.93	-0.06	-0.85	1.82	11.04	1387.44
Banks, Retail	998.49	+0.02	+0.25	2.07	1.68	1000.14
Insurance	1001.23	+0.04	+0.39	1.25	0.00	1001.23
Life Insurance	991.98	-1.19	-12.00	1.51	0.00	991.98
Other Financial	999.14	+0.37	+3.68	1.96	0.00	999.14
Investment Companies	982.82	-0.65	-6.40	2.25	0.00	982.82
Property	983.35	-0.66	-6.49	2.72	0.00	983.35

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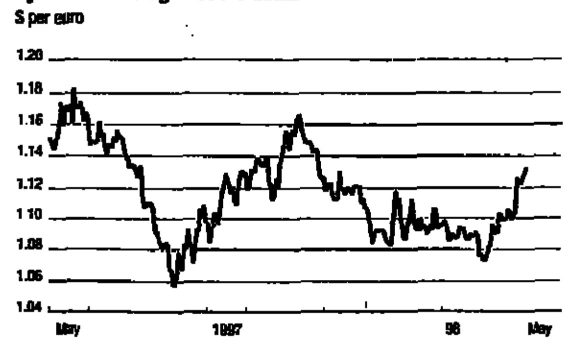
CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

May 06	Currency code	Closing mid point	Change on day	Change on day%	Change on week	Change week %
Europe						
Austria	ATS	14.063169	-0.0030	-0.02	-0.0014	-0.01
Belgium	BEF	41.252341	+0.0271	0.07	+0.0067	0.02
Czech Republic	CZK	36.766396	+0.2412	0.66	+0.1601	0.44
Denmark	DKK	7.625539	+0.0016	0.02	+0.0039	0.05
Finland	FIM	6.074995	+0.0000	0.00	+0.0071	0.12
France	FRF	6.703548	+0.0011	0.02	+0.0012	0.02
Germany	DEM	1.998686	-0.0004	-0.02	+0.0001	0.00
Greece	GRD	347.357731	+1.0511	0.30	-2.8588	-0.82
Hungary	HUF	238.238725	+0.2922	0.12	+1.2876	0.55
Ireland	IEP	0.795261	+0.0000	0.00	+0.0023	0.29
Italy	ITL	1971.561756	-0.6440	-0.03	-1.9557	-0.10
Luxembourg	LUF	41.252341	+0.0271	0.07	+0.0067	0.02
Netherlands	NLG	2.252485	+0.0004	0.02	+0.0021	0.10
Norway	NOK	8.305056	+0.0047	0.06	-0.0014	-0.02
Poland	PLN	3.805861	+0.0152	0.40	+0.0230	0.61
Portugal	PTE	204.670500	+0.0158	0.01	-0.2047	-0.10
Romania	ROL	9567.032161	+103.0834	1.09	+300.5938	3.24
Russia	RUB	6.931073	+0.0401	0.58	+0.1043	1.53
Slovakia	SKK	38.651489	+0.0559	0.14	+0.2214	0.58
Spain	ESP	168.822607	+0.1312	0.08	+0.0697	0.04
Sweden	SEK	8.577656	-0.0198	-0.23	-0.0415	-0.48
Switzerland	CHF	1.670932	-0.0020	-0.12	+0.0004	0.02
United Kingdom	GBP	0.681329	+0.0017	0.25	+0.0152	2.28
ECU	ECU	1.013953	+0.0002	0.02	+0.0031	0.31
Americas						
Brazil	BRL	1.296518	+0.0058	0.45	+0.0224	1.76
Canada	CAD	1.629255	+0.0056	0.35	+0.0361	2.27
Mexico	MXN	9.593309	+0.0418	0.44	+0.1441	1.52
United States	USD	1.132528	+0.0049	0.43	+0.0188	1.69
Pacific/Middle East/Africa						
Australia	AUD	1.773766	+0.0147	0.84	+0.0656	3.84
Hong Kong	HKD	8.775961	+0.0378	0.43	+0.1488	1.72
Japan	JPY	150.331796	+1.7729	1.19	+3.1714	2.16
Singapore	SGD	1.827901	+0.0425	2.38	+0.0643	3.64
South Africa	ZAR	5.726629	+0.0235	0.41	+0.0948	1.69

Source: FTSE International Ltd. This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying GDP weights to Euro "in" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends.

Synthetic Euro against the dollar



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

Bilateral conversion rates against the D-Mark

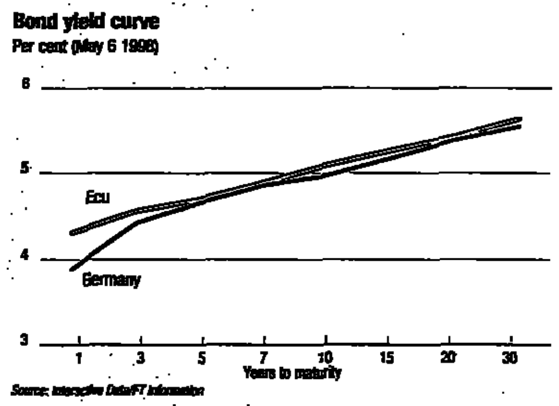
May 06	Fixed rate	Market rate	Diff fxd v mkt %	Week ago %	Forward rate	Forward int rate	Diff int rate v DEM
Austria	7.03552	7.0362	0.01	0.01	7.0358	3.86	-0.01
Belgium	20.6255	20.6397	0.07	0.03	20.6481	3.93	0.06
France	3.35386	3.354	0.00	-0.01	3.3537	3.86	-0.01
Finland	3.04001	3.0395	-0.02	-0.17	3.0409	3.94	0.07
Ireland	0.402676	0.3979	-1.19	-1.58	0.4021	5.51	1.64
Italy	990.002	986.4291	-0.36	-0.2	991.091	4.6	0.73
Luxembourg	20.6255	20.6397	0.07	0.03	20.6481	3.93	0.06
Netherlands	1.12674	1.127	0.02	-0.08	1.1259	3.86	-0.01
Portugal	102.505	102.4025	-0.1	0.04	102.5926	4.16	0.29
Spain	85.0722	84.9671	-0.12	-0.17	85.1637	4.23	0.36
Germany	1					3.87	

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 2/3; forward rates are exchange rates to 31/12/98 interpolated from market quotes; forward interest rates are those implied by these forward exchange rates. Diff int rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31/12/98; DEM forward interest rate for 31/12/98 is calculated by interpolation between published BBA market fixings.

BONDS

Bond yield curve

Per cent (May 6 1998)



Source: Interactive Data/FT Information

EUROZONE CORPORATE BONDS

May 06	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible Issues								
Belgium (Kingdom of)	03/08	5.750	N/A	104.820	5.11	0.00	0.14	0.02
France (Rep of)	04/08	5.250	N/A	101.550	5.05	0.01	0.17	-0.04
Italy (Rep of)	05/08	5.000	AA	98.790	5.16	0.00	0.09	0.07
Portugal (Rep of)	06/08	5.375	AA-	101.590	5.17	0.00	0.16	0.08
Euro Issues								
Abbey Natl Treas Srv	02/03	4.875	AA	100.000	4.87	-0.03	0.37	0.17
Gen Electric Cap Crp	10/04	5.500	AAA	102.670	5.00	0.00	0.24	0.16
Oest Kontrollbank	04/08	5.250	AAA	100.500	5.18	-0.01	0.12	0.09
Cred Local de France	04/08	5.250	AA+	99.090	5.37	0.01	0.16	0.28
Ecu Issues								
Bayer Hypo & Wch Bk	07/01	5.000	A+	101.270	4.55	-0.02	0.14	-0.01
Cred Foncier France	03/04	8.375	A	114.530	5.41	0.00	0.14	0.57
Euro Inv Bank	04/04	5.250	AAA	102.500	4.75	-0.02	0.14	-0.09
ABN Amro Hldg. NV	04/07	6.375	AA-	106.470	5.44	0.00	0.12	0.40

Source: Interactive Data/FT Information. London closing. Fungible bonds issued in tranches by Emu "in" sovereigns and fungible into one big Euro issue 1/1/99; Euro issues are issued in the new currency; Ecu bonds are issued in Ecus but convert to Euros 1/1/99.

GOVERNMENT BOND SPREADS vs ECU

May 06	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
"INs"						
Austria	-0.12	0.01	0.03	0.01	-0.06	0.00
Belgium	-0.12	0.02	0.05	0.03	0.00	0.01
Finland	-0.17	0.07	0.05	0.01	-0.32	-0.53
France	-0.20	-0.04	-0.07	-0.04	-0.05	-0.07
Germany	-0.23	-0.04	-0.03	-0.12	-0.04	-0.09
Ireland	0.51	0.17	0.11	0.10	0.10	0.22
Italy	0.15	0.20	0.14	0.14	0.16	0.10
Luxembourg	-0.12	0.02	0.05	0.03	0.00	0.01
Netherlands	-0.18	-0.03	-0.05	-0.07	-0.03	-0.10
Portugal	-0.10	0.06	0.02	0.03	0.12	0.33
Spain	-0.10	0.05	0.08	0.06	0.18	0.32
"OUTs"						
Denmark	0.40	0.38	0.26	0.22	0.16	0.16
Greece	5.45	4.12	3.32	2.89	2.36	2.15
Sweden	0.47	0.39	0.30	0.23	0.17	-0.04
UK	1.97	1.24	1.02	0.71	0.38	0.03

Source: Interactive Data/FT Information. Table takes common convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CREDIT SPREADS vs ECU

May 06	S & P rating	Red date	Coupon	Currency code	Spread Spread	Spread wk ago	mth ago
KFW	AAA	01/09	5.000	DEM	0.01	0.14	0.04
France Telcom	AA+	11/06	6.250	FRF	0.19	0.32	0.31
Halifax	AA	07/07	5.625	DEM	0.20	0.36	0.30
Ing Bank NV	AA-	01/08	5.500	NLG	0.19	0.33	0.25
Bayer Hypo W Bk	A+	02/02	6.750	ITL	0.27	0.86	0.74
Cred Foncier	A	02/03	7.250	DEM	0.36	0.93	0.89
Thomson-Brandt Int	A-	03/04	6.375	FRF	0.34	0.63	0.66
Generale des Eaux	BBB+	03/04	6.250	FRF	0.25	0.62	0.57
Bank of China	BBB	07/99	7.125	DEM	0.71	0.65	0.50
Natl Bk of Hungary	BBB-	06/01	9.000	ATS	0.65	1.40	1.44
Korea Dev Bank	BB+	11/02	5.625	FRF	4.12	4.73	5.43

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.

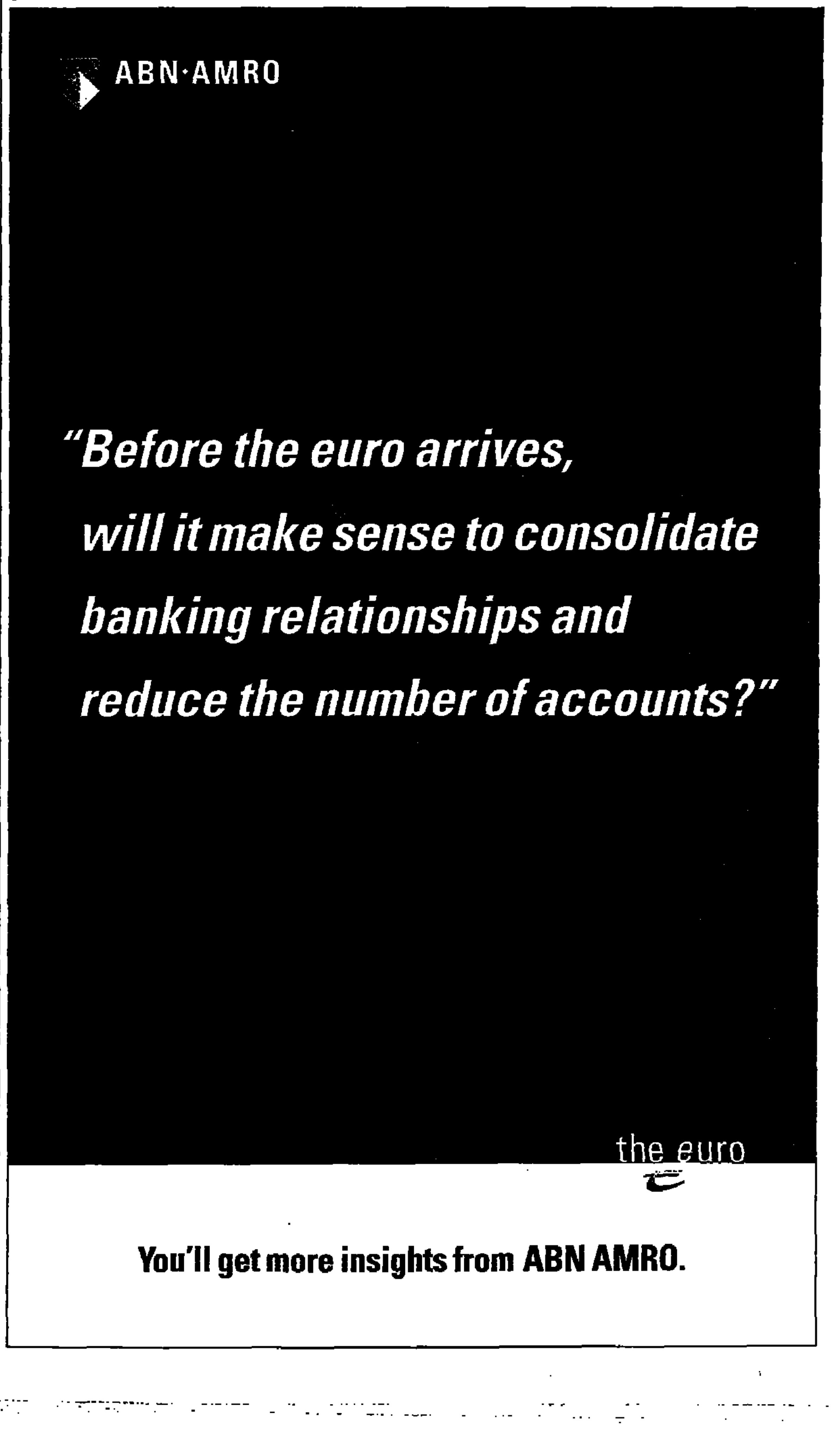
FTSE EUROTOP 300

Name	Price (Ecu)	Chge + or -	Mkt cap Ecu(bn)	Vol (m)	Yld
ALCOHOLIC BEVERAGES					
Allied-Dom	9.23	-	9.6	14.3	4.8
DISTRIBUTORS					
Adidas Salom	164.49	-1.6	7.8	0.5	0.5
[illegible]					

AUTOMOBILES · BANKS RETAIL · BREWERIES, PUBS & RESTAURANTS · BUILDING MATERIALS & MERCHANTS · CHEMICALS · CONSTRUCTION · DIVERSIFIED INDUSTRIALS · ELECTRICITY · ELECTRONIC & ELECTRICAL EQPT. · ENGINEERING · EXTRACTIVE INDUSTRIES · FOOD PRODUCERS · GAS DISTRIBUTION · HEALTH CARE · HOUSEHOLD GOODS & TEXTILES · INFORMATION TECHNOLOGY · INSURANCE · INVESTMENT COMPANIES · LEISURE & HOTELS · LIFE INSURANCE · MEDIA · OIL, EXPLORATION & PRODUCTION · OIL, INTEGRATED · OTHER FINANCIAL · PAPER PACKAGING & PRINTING · PHARMACEUTICALS · PROPERTY · RETAILERS, FOOD · RETAILERS, GENERAL · SUPPORT SERVICES · TELECOMMUNICATIONS · TOBACCO · TRANSPORT · WATER

Name	Price (Ecu)	Chge + or -	Mkt cap Ecu(bn)	Vol (m)	Yld
HOUSEHOLD GOODS & TEXTILES					
Beiersdorf	52.27	+1.6	4.4	0.5	1.0
PHARMACEUTICALS					
Astra A	19.32	+3	31.5	48.6	1.1
[illegible]					

Notes: Price data and market capitalisations supplied by FTSE International. [illegible]



US Treasury rescheduling boosts Europe

GOVERNMENT BONDS

By Vincent Boland and Jeremy Grant in London and John Labate in New York

Changes to the US Treasury auction schedule and a smaller than expected refinancing next week gave bond markets a much needed boost yesterday.

US Treasuries rose modestly after the announcement, helping put the brakes on another day of moderate losses in European markets, which ended flat to slightly higher in quiet trading.

Interest rate concerns continued to dog the European markets as investors concentrated on the timing of the last stages of convergence.

The issue could continue to dominate for some time, with rate cuts in Spain and Italy, and perhaps Ireland, in the short term before the core European rates were increased.

Han de Jong, international strategist at ABN Amro, said convergence would be completed fairly quickly but its effect might be limited.

"We will see some cuts in Italy and Spain and some tightening by the core countries, but not by a lot, so bond yields are likely to stay where they are. The main risk for yields is on the upside," he said.

Much of the day's activity, however, was spurred by a stronger opening in US TREASURIES after news that the supply of new issues would be changing. By early afternoon the the benchmark 30-year bond was up $\frac{5}{32}$ to 102½, sending the yield down to 5.944 per cent.

Among shorter-term issues the two year note rose $\frac{1}{32}$ to 100$\frac{1}{32}$, yielding 5.574 per cent, and the 10-year note gained $\frac{4}{32}$ to 98¾, yielding 5.667 per cent.

The auction changes were brought about by the US budget surplus. The Treasury said five-year notes would be sold quarterly rather than monthly after June and three-year notes would be eliminated later in the year.

"This is quiet a dramatic change in the supply pattern, and it's causing some dislocation in the curve," said Ken Fan, international bond strategist at Paribas Capital Markets. "All of this together gave a lift to the bond market, especially in the intermediate sector."

The main economic release was a survey of manufactureres' orders, which rose 0.3 per cent in March. The February orders figure was revised to a 0.7 per cent drop. Traders were waiting for the release of the Federal Reserve's "beige book" later in the session.

The UK GILT market was awaiting the outcome of the regular meeting of the Bank of England's monetary policy committee, which concludes today. The view that no further interest rate increase is likely was reinforced by the release yesterday of another survey showing the services sector continuing to strengthen, though at a slower pace.

Trading was lacklustre ahead of the MPC decision. The June gilt future settled $\frac{1}{32}$ lower at 108$\frac{23}{32}$, but volumes on Liffe were light, with 50,000 contracts exchanged by late afternoon. The spread between 10-year gilts and bunds edged in slightly to 91 basis points.

In the cash market, investors that believe interest rates have peaked continued to pursue activity in short-dated paper. "There is relative value at the short end and we have seen some aggressive buying of the two-year to five-year end and some sharp movements in the two-year gilt/bund spread in the last few days," said John McNeill, government bond strategist at Sutherlands stockbrokers.

GERMAN BUNDS ended flat, shrugging off early losses on the back of a stronger US market. Trading in both the cash and futures markets was again light, with little fresh economic data on the domestic front to give direction. Unemployment data on Friday is the next signpost, but are expected to contain few surprises.

The June future settled unchanged at 106.83, with 350,000 contracts exchanged on the DTB. Other European markets posted single-digit gains in later trading, also recovering from early weakness, but again there was little vigour in the markets.

DANISH BONDS recovered after being hit by Tuesday's interest rate rise. Analysts said attempts to end the country's crippling strike had helped to calm nerves. The market held up well in later trading but its outperformance of bunds was reversed later.

The spread between 10-year Danish and German bonds widened slightly to 32 basis points.

Finland joins the euro bandwagon for E2bn

INTERNATIONAL BONDS

By Edward Luce in London and Raymond Colitt in Caracas

Finland yesterday became the latest European sovereign to join the euro bandwagon with an E2bn deal.

The bond, which is now the tightest priced European sovereign in euros at a launch spread of just eight basis points over the curve, found a receptive audience in both Japan and Germany, said lead managers. About 15 per cent of the allocation went to each market.

"We think that the events at the weekend [where bilateral conversion rates were set for European monetary union] has encouraged some funds to look at euro-denominated bonds for the first time," said an official at J.P. Morgan, joint lead manager with Paribas.

Finland, whose rating was recently upgraded by one notch to AAA by Moody's Investors Service, is the fifth European sovereign after Italy, Spain, Sweden and Greece to tap this market.

The bond, however, was technically a domestic issue that will be fungible with a forthcoming markka-denominated offer. Yesterday's bond tightened about half a basis point after launch.

Petróleos de Venezuela (PDVSA), the state-owned oil company, returned to the market with a $1.8bn securitised offering. The five-tranche bond, priced at spreads of between 88 basis points and 165 basis points over US Treasuries, is secured on receivables from PDVSA's oil revenues.

Because of this, the bond was rated A2 by Moody's and A by Fitch IBCA, significantly higher than Venezuela's sovereign rating. The bond will be serviced through a special purpose vehicle domiciled in the Cayman Islands in order to shield investors from any exchange rate risk to the Venezuelan currency. Proceeds from the issue, which was sold to mostly US investors, will go towards' PDVSA's 10-year expansion plan. The maturity of the five tranches ranged from five to 30 years.

FRANCE TELECOM made a rare visit to the dollar sector with a $500m 10-year offering. The issue, priced at 40 basis points over the US Treasury benchmark, was lead-managed by Paribas and SBC Warburg.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
PDVSA Finance, Class A(a1)	400	6.45(s)#	99.8938	Feb 2004	0.60	+88(5⅝Apr03)	Morgan Stanley DW
PDVSA Finance, Class B(a2)	300	6.65(s)#	99.8076	Feb 2006	0.625	+100(May05)	Morgan Stanley DW
PDVSA Finance, Class C(a3)	300	6.80(s)#	99.7878	Nov 2008	0.65	+120(Feb08)	Morgan Stanley DW
PDVSA Finance, Class D(a4)	400	7.40(s)#	99.5470	Aug 2016	0.875	+155(30yr)	Morgan Stanley DW
PDVSA Finance, Class E(a5)	400	7.50(s)#	99.4704	Nov 2028	0.875	+165(30yr)	Morgan Stanley DW
France Telecom	500	6.00	98.60R	May 2008	0.325R	+40(5½Feb08)	Paribas/SBC Warburg DR
Swedish Export Credit	500	6.00	99.786R	May 2003	0.275R	+30(5¾Apr03)	ABN Amro/Salomon SB
Disco	100	9.125(j)#	99.939R	May 2003	0.75R	+350(Apr03)	JP Morgan Securities
Disco(k)	350	9.875(j)#	99.342R	May 2008	1.00R	+430(Feb08)	JP Morgan Securities
Bca Popolare di Brescia(b)‡	300	(b1)	100.00R	Jun 2003	0.25R	-	Morgan Stanley DW
Deutsche Ausgleichsbank	300	5.875	99.718R	May 2003	0.25R	+21(5¾Apr03)	Dresdner/Morgan Stanley
Suedwestdeutsche LB	250	4.375(l)	97.319R	May 2000	0.125R	+15(5⅝Apr00)	PaineWebber Intl(UK)
Globopar(c,s)	200	10⅝#	100.30R	Jun 2008	0.60R	-	Chase/Goldman Sachs
D-MARKS							
Depo International Finance‡	500	(d)	100.01R	May 2003	0.15R	-	WestLB
GUILDERS							
Dresdner Finance	1bn	5.25(s)	99.363R	Jan 2009	0.325R	+28(i)	ABN Amro
EUROS(e)							
Republic of Finland(f)	2bn	5.00	98.20R	Apr 2009	0.325R	+8(i)	JP Morgan/Paribas
Deutsche Finance Neths	500	5.00	99.826R	May 2005	0.30R	+15(7½Apr05)	Deutsche Bank
GMAC‡	500	(g)	99.843R	May 2003	0.225R	-	Merrill/SBC Warburg DR
LUXEMBOURG FRANCS							
Argenta Nederland	2bn	4.60	100.00	Jun 2003	1.75	-	BCEE
PESETAS							
European Inv'ment Bank(h)	30bn	4.50(s)	99.251R	Feb 2003	0.125R	-5(5¼Jan03)	BSN/Caja de Madrid
NEW ZEALAND DOLLARS							
World Bank	250	7.25#	98.805	May 2003	0.15	-	RBC DS Global Markets
RUSSIAN ROUBLES							
EBRD(j)	600	zero	33.96R	May 2002	0.25R	-	ING Barings

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Secured on oil receivables. Average life yrs: a1) 4.88, a2) 7.13, a3) 9.88, a4) 17.38, a5) 29.63. b) Callable from Jun 01 at par. b1) 3-mth Libor +25bp. c) Fungible with $300m. Plus 54 days accrued. Callable on 5/12/03 at 104⅝% falling 1⅛%pa to par on 5/12/06. d) 3-mth Libor +10bp. e) Payments in Ecu prior to Emu. Spread relates to French govt Ecu bonds. f) Plus 18 days accrued. Fungible with to be issued FM3bn (approx) upon Emu. g) 3-mth Libor +12½bp. h) Fungible with DM2bn and FFr3bn upon Emu. i) Over interpolated yield. j) All payments in US$. k) Callable from 15/5/03. l) Long 1st coupon. s) Short 1st coupon.

NEWS DIGEST

SOVEREIGN RATINGS

S&P, Moody's standardise approach to Emu nations

Standard & Poor's and Moody's Investors Service, the two largest credit rating agencies, have come close to standardising their approach to rating European government bonds following the announcement of the membership of European economic and monetary union.

S&P yesterday eliminated the differences between foreign and local currency ratings for the 11 member nations. It also upgraded Ireland to AA+, and revised the outlooks of Finland and Spain to positive. Italy's outlook was also improved to stable, from negative – a factor that was behind the narrowing of the yield spread between Italian BTPs and German bunds yesterday.

Moody's foreign and local currency ratings have already converged, reflecting the fact that exchange rate and monetary policy for Emu members will be passed on to the European Central Bank.

The only real difference in approach is that Moody's has unified the foreign currency ceilings of all Emu members to AAA. But in practice, S&P has taken the same stance by stating that issuers in the Emu zone are not constrained by the rating of the country in which they are domiciled.

Moody's now has four Emu countries with sovereign ratings lower than AAA, while S&P has six. Both agencies are adamant that credit differentials between the Emu members will remain even after the creation of a single currency.

S&P said yesterday: "Despite the policy commitments of member states, the fiscal and debt pressures they face and the flexibility each enjoys varies. The risk still is that some may falter in their resolve to maintain fiscal discipline for many of the same economic and political reasons as in the past."
Simon Davies

CHINESE ITICS

Moody's says outlook worsens

The outlook for China's International Trust and Investment Corporations (ITICs) is rapidly worsening, according to Moody's Investors Service. It said profitability was being eroded and the groups faced substantial indirect foreign exchange risks, as central and local government support might wane.

The performance of Korea's chaebols following the country's currency crisis has raised concern about other state-supported conglomerates in the region. The ITICs have been at the forefront of the China's push into the international capital markets. CITIC's Hong Kong arm has developed into the largest of Hong Kong's so-called red chips, with substantial businesses in both Hong Kong and China.

However, China was deemed to have escaped relatively unscathed in the Asian crisis. Nonetheless, Moody's argues that in the face of weakening profitability, capital injections may be required. Central bank supervision over the ITICs has "been woefully deficient", Moody's argues, "due to frequent interference from [their] powerful owners". **Simon Davies**

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

May 6	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	04/00	7.000	103.6108	5.02	-0.01	-0.03	+0.09	-1.33
	10/07	10.000	130.6806	5.70	-0.01	-0.09	+0.14	-2.01
Austria	09/99	7.000	103.8000	4.19	+0.03	+0.02	+0.10	+0.31
	07/07	5.625	103.9800	5.07	-	-0.03	+0.16	-0.68
[illegible]								

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	103.31	103.23	-0.09	103.35	103.08	75,364	84,303
Sep	102.85	102.77	-0.09	102.85	102.78	33	3,913

[illegible]

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	102.52	103.02	-0.08	102.52	102.36	38	5,066

US CORPORATE BONDS

[illegible]

US INTEREST RATES

[illegible]

10 YEAR BENCHMARK SPREADS

[illegible]

EMERGING MARKET BONDS

[illegible]

INTERNATIONAL BONDS

May 6	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
EB	02/07	5.750	AAA	104.9600	5.03	-	+0.16	+0.03
Spain	01/07	5.750	AA	104.4000	5.10	+0.01	+0.17	+0.10
Philip Morris	03/04	5.375	A	101.1800	5.13	-	+0.15	+0.35
[illegible]								

UK BONDS

FTSE Actuaries Govt. Securities

[illegible]

FT Fixed Interest Indices

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

Yen sings blues after Golden Week

MARKETS REPORT

By Simon Kuper

Tokyo investors returning from their Golden Week holidays sold Japanese shares, bonds and yen yesterday, as sentiment over Asia grew even worse.

Weak economic data from various countries in the region and pessimistic comments from Japanese officials hit the yen. Koichi Kato, a senior Liberal Democratic Party official, said more Japanese financial companies could fail, while Koji Omi, economic planning minister, said Japan's credit crunch did not seem to be easing.

They undid the gains the yen had made during Golden Week, when Tokyo officials went on a roadshow to talk up the Japanese economy to foreign investors. Gerard Lyons, chief economist at DKB International in London, reported that Eisuke Sakakibara, the legendary Japanese finance ministry official, had given a bravura performance in the UK.

The yen's fall was more dramatic against the D-Mark than against the dollar yesterday. This is because investors still believe that the Bank of Japan might sell dollars in the market. Jeremy Hawkins, chief economist at Bank of America in London, said some investors thought next week's summit of the Group of Seven industrialised nations in Birmingham might express support for the yen. Also, G7 finance ministers meet in London from tomorrow.

Mr Lyons said President Bill Clinton and Alan Greenspan, chairman of the Federal Reserve, may have agreed this week to help the yen rise against the dollar. That would delight stricken exporters in other Asian countries, who rely heavily on sales to Japan. It would also reverse the "strong dollar policy" that the US has followed for three years.

The Nikkei 225 share average dropped 2.29 per cent yesterday, and Japanese benchmark bond yields fell to a record low, dragging the yen down Y1 against the dollar to close in London at Y132.7. It fell Y0.91 against the D-Mark to Y75.22. The bad news from Asia also hurt the Australian dollar.

■ The D-Mark was given a hand yesterday by Guntram Palm, Bundesbank council member, who said the currency's strength in recent days was no cause for concern. The direction of exchange rate movements was "not unwelcome". The D-Mark's rise showed the market's confidence in the Bundesbank's policy and in the euro, he said. He added that there was no economic reason now to raise German interest rates.

Mr Palm seemed to contradict other Bundesbank officials, who in recent weeks had seemed keen to keep the D-Mark down.

One theory is that with the last details of European monetary union now sorted, Germany's is striving for a strong euro. "For a strong euro" is in fact the election campaign slogan of Helmut Kohl, the chancellor.

The dollar and pound each dropped 0.8 pfgs against the D-Mark to DM1.765 and DM2.933 respectively.

■ Anyone who thinks the European central bank will be soft on inflation should read a report published by the European Parliament's Socialist group.

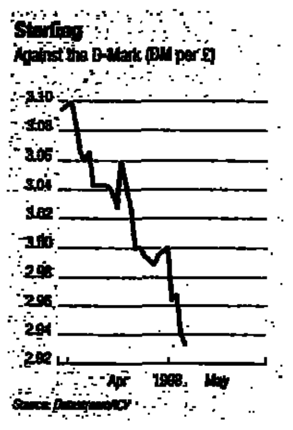
It notes that four of the bank's six executive board members, including Wim Duisenberg, the future president, have said in the past that inflation should be no higher than 2 per cent. The other two members, Tomasso Padoa Schioppa and Eugenio Domingo Solans, have said nothing about targets, but Mr Solans has described inflation as "the cancer of the economy".

■ Norway said yesterday that keeping the krone stable would remain the goal of its monetary policy, even after the euro is launched. The exchange rate target has usually entailed Norges Bank, the central bank, acting to stop the krone from rising. News that the target would remain in place therefore weakened the krone slightly yesterday.

■ Tony Blair, UK prime minister, said he would not ask the Bank of England to shadow the euro. The two-day meeting of the Bank's monetary policy committee ends today. Only the most outlandish of economists expects a rate rise.

Sterling

Against the D-Mark (DM per £)



Source: Datastream/ICV

■ POUND IN NEW YORK

May 6	—Latest—	— Prev. close —
£ spot	1.6595	1.6630
1 mth	1.6570	1.6605
3 mth	1.6520	1.6550
1 yr	1.6367	1.6405

■ OTHER CURRENCIES

May 6	£	$
Czech Rp	53.9123 - 54.0048	32.4460 - 32.4820
Hungary	348.580 - 348.852	208.570 - 208.620
Iran	4987.80 - 4984.80	3000.60 - 3000.00
Kuwait	0.5070 - 0.5074	0.3051 - 0.3052
Peru	4.7140 - 4.7218	2.8370 - 2.8400
Poland	5.5797 - 5.5913	3.3580 - 3.3630
Russia	10.1682 - 10.1759	6.1195 - 6.1205
U.A.E.	6.1027 - 6.1067	3.6728 - 3.6730

POUND SPOT FORWARD AGAINST THE POUND

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

WORLD INTEREST RATES

MONEY RATES

May 6	Over night	One month	Three mths	Six mths	One year	Lomb. Intv.	Dis. rate	Repo rate
Belgium	3⅝	3⅝	3⅝	3¾	4⅛	6.00	2.75	–
France	3⅝	3¾	3⅝	3⅝	3⅝	4.60	–	3.30
Germany	3⅝	3⅝	3½	3¾	3⅝	4.50	2.50	3.30
Ireland	5⅝	6¾	6⅛	5⅝	5¾	–	–	6.75
Italy	5⅝	5⅛	4⅞	4⅞	4¾	6.50	5.00	5.63
Netherlands	3⅝	3⅞	3½	3⅝	3⅝	–	2.75	3.30
Switzerland	1⅛	1⅛	1⅜	1⅜	1¾	–	1.00	–
US	5½	5⅛	5¾	5⅞	5⅝	–	5.00	–
Japan	⅜	⅜	⅜	⅜	⅜	–	0.50	–
■ $ LIBOR BBA London								
Interbank Fixing	–	5¾	5⅝	5⅝	5⅝	–	–	–
US Dollar CDs	–	5.42	5.45	5.48	5.58	–	–	–
ECU Linked Ds	–	4⅛	4⅛	4⅛	4⅛	–	–	–
SDR Linked Ds	–	3¾	3¾	3⅝	3⅝	–	–	–

London Interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am. Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.5670	0.5663	–0.0009	0.5671	0.5657	40,657	133,762
Sep	0.5702	0.5690	–0.0009	0.5702	0.5688	56	3,800
Dec	–	0.5720	–0.0005	–	0.5720	32	138

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.6800	0.6781	–0.0015	0.6800	0.6766	17,797	56,671
Sep	0.6850	0.6852	–0.0012	0.6852	0.6849	49	1,300
Dec	–	0.6918	–0.0012	–	0.6918	20	46

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.7650	0.7572	–0.0078	0.7652	0.7570	28,210	88,740
Sep	0.7697	0.7681	–0.0069	0.7687	0.7674	160	2,328
Dec	–	0.7852	–	–	–	85	244

■ STERLING FUTURES (IMM) $62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.6598	1.6582	–0.0022	1.6604	1.6550	9,990	36,031
Sep	1.6480	1.6490	–0.0052	1.6520	1.6480	35	705
Dec	–	1.6440	–0.0046	–	1.6440	12	55

UK INTEREST RATES

LONDON MONEY RATES

May 6	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6¾ - 2	7¾ - 7½	7¼ - 7⅛	7⅝ - 7⅝	7⅝ - 7⅞	7⅞ - 7⅛
Sterling CDs	-	-	7⅛ - 7⅛	7⅝ - 7⅞	7⅞ - 7⅛	7¾ - 7⅛
Treasury Bills	-	-	7⅛ - 7⅛	7⅛ - 7⅛	-	-
Bank Bills	-	-	7⅛ - 7⅛	7⅛ - 7⅛	7⅛ - 7⅛	-
Local authority deps.	7⅛ - 7	7¼ - 7⅛	7⅛ - 7⅛	7¾ - 7⅛	7¾ - 7⅛	7¾ - 7⅛
Discount Market deps	7⅛ - 7⅛	7¼ - 7⅛	-	-	-	-

UK clearing bank base lending rate 7¼ per cent from Nov 6, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	6.5	6.5	6.25	6.25

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 2pc. Avg. tender rate of discount on Apr 9, 7.0052pc. ECGD fixed rate Stg. Export Finance. Make up day Apr 30, 1998. Agreed rate for period May 26, 1998 to Jun 23, 1998, Scheme III 8.78pc. Reference rate for period Apr 1, 1998 to Apr 30, 1998, Schemes IV & V 7.527pc. Finance House Base Rate 8pc from May 1, 1998.

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	92.570	92.580	+0.010	92.580	92.550	15536	185909
Sep	92.720	92.730	+0.010	92.730	92.690	16672	113576
Dec	92.900	92.910	+0.010	92.910	92.880	26495	133213
Mar	93.100	93.110	-	93.120	93.060	17564	93081

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	Calls Jun	Calls Sep	Calls Dec	Puts Jun	Puts Sep	Puts Dec
92500	0.025			0.070		
92750	0.010	0.100	0.270	0.180	0.120	0.110
93000	0			0.295		

Est. vol. total, Calls 9436 Puts 7425. Previous day's open int., Calls 398760 Puts 259542

BASE LENDING RATES

	%		%		%
Adam & Company	7.25	Exeter Trust Limited	8.25	●Singer & Friedlander	7.25
Allied Irish Bank (GB)	7.25	Financial & Gen Bank	8.00	●Smith & Williamson	7.25
●Henry Ansbacher	7.25	●Robert Fleming & Co	7.25	Sun Bank	7.25
Banco Bilbao Vizcaya	7.25	●Guinness Mahon	7.25	TSB	7.25
Bank of Cyprus	7.25	Habib Bank AG Zurich	7.25	United Bank of Kuwait	7.25
Bank of Ireland	7.25	●Hambros Bank	7.25	Unity Trust Bank Plc	7.25
Bank of India	7.25	Heritable & Gen Inv Bk	7.25	Whiteaway Laidlaw	7.25
Bank of Scotland	7.25	C. Hoare & Co	7.25	Yorkshire Bank	7.25
Barclays Bank	7.25	Hongkong & Shanghai	7.25		
Brit Bk of Mid East	7.25	Investec Bank (UK) Ltd	7.25	● Members of London Investment Banking Association	
●Brown Shipley & Co Ltd	7.25	Julian Hodge Bank	7.25	* In administration	
Citibank NA	7.25	●Leopold Joseph & Sons	7.25		
Clydesdale Bank	7.25	Lloyds Bank	7.25		
The Co-operative Bank	7.25	Midland Bank	7.25		
Coutts & Co	7.25	NatWestminster	7.25		
Cyprus Popular Bank	7.25	●Rea Brothers	7.25		
Duncan Lawrie	7.25	Royal Bk of Scotland	7.25		
		Scottish Widows Bank	7.25		

EMS EUROPEAN CURRENCY UNIT RATES

May 6	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Greece	357.000	342.885	+0.919	–3.95	3.80	26
Ireland	0.796244	0.784314	+0.000072	–1.50	1.22	10
Italy	1957.61	1944.66	–0.32	–0.66	0.36	5
Spain	168.220	157.490	–0.001	–0.43	0.13	3
Portugal	202.692	201.959	+0.016	–0.36	0.06	2
France	6.63186	6.60987	+0.00056	–0.33	0.03	3
Finland	6.01125	5.99174	–0.00027	–0.32	0.02	2
Denmark	7.54257	7.51879	+0.00159	–0.32	0.01	2
Germany	1.97738	1.97116	+0.00019	–0.31	0.01	3
Netherlands	2.22799	2.22121	+0.00029	–0.30	0.00	2
Belgium	40.7844	40.6618	+0.0059	–0.30	0.00	2
Austria	13.9119	13.8889	+0.0012	–0.30	0.00	2
NON ERM MEMBERS						
UK	0.653644	0.670360	–0.000397	2.56	–2.79	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92 Sterling suspended from ERM. 16/3/98: Drachma joined ERM & Punt revalued by 3%. Other central rates adjusted. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

GRAIN MARKETING REFORM MAY TRIGGER DECLINE IN STATE PRICES

China to shift pricing responsibility to provinces

By James Kynge in Beijing

China plans to shift the responsibility for setting the state purchase price for grain from central to provincial authorities.

The move signals an important step toward reforming a labyrinthine grain marketing system plagued by waste, corruption and inefficiency.

The move was one concrete result of a top-level conference last week chaired by Zhu Rongji, China's new premier, agriculture ministry officials said.

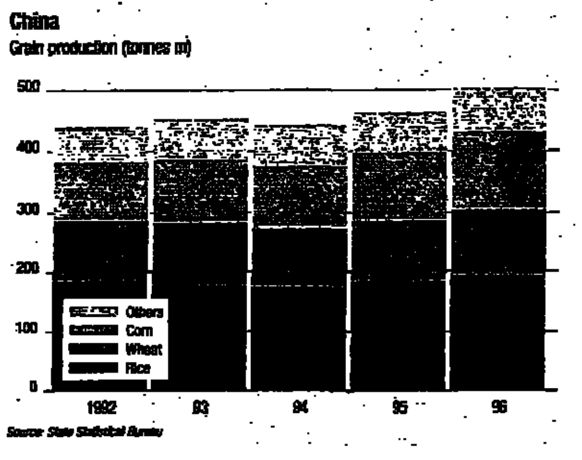
The effects of the reform may be to trigger a decline in state prices, bringing them closer to the free market prices at which roughly 50m tonnes of China's total production of 492m tonnes in 1997 is to be sold.

The plan to have provincial authorities setting grain purchase prices was likely to lead to a wide divergence of prices throughout China, said Xu Baiyuan, a researcher at the Agriculture Ministry's rural economy research centre.

Also implicit in the plan was the suggestion that provincial authorities may, over time, assume some of the huge financial burden that the central government incurs in subsidising grain purchases, officials said.

The state's grain bureaux (SGBs) are believed to have built up debts of about \$12bn, which are rising at an annual rate of \$2.5bn, partly through the provision of subsidies and partly to provide for the 4.1m people employed in the chronically overstaffed bureaux.

China
Grain production (tonnes m)



Source: State Statistical Bureau

Officials said Mr Zhu also called for deep cuts in SGB personnel but did not give details.

The level of subsidy costs has been sustained by paying above market prices to farmers. This is deemed necessary in the current conditions of oversupply and falling free market grain prices to encourage farmers to continue planting their fields, officials said.

Above all, China fears unrest and dislocation among a rural population of about 800m.

Mr Zhu made clear that the country was not shifting to a system of free market prices for all grain sales, as some analysts had predicted before last week's conference.

State purchase prices would be maintained and farmers would be able to sell as much grain as they want to the state, officials quoted Mr Zhu as saying.

However, as provincial authorities assume the financial responsibility for grain subsidies to local farmers, they are expected to fix state purchase prices nearer to free market levels in order to reduce their subsidy burden, analysts said. This may result in farmers losing out, they added.

The planned "commercialisation" of the grain distribution system, which is also to come under provincial control, was another attempt to reduce costs, analysts said.

Under this plan, the state grain outlets are to be encouraged to enter side-line businesses, such as restaurants and bakeries, to offset the losses incurred in selling grain.

Later, such grain outlets and other parts of the huge state grain machinery – such as processing plants, feed mills and other downstream businesses – may be encouraged to diversify their ownership, officials said.

This could mean selling equity to the the private sector or even taking on foreign joint venture partners.

No time-scale was given for the reforms but officials said that most provinces were likely to start fixing their own purchase prices over the next few months.

Grain reserves, which are a state secret, are to remain of the utmost strategic importance, but reforms are scheduled in this area too.

The government wants to separate state reserves, which are set aside for emergencies such as war and famine, from commercial reserves.

This will help to stop corrupt officials selling off grain from state reserves when free market prices exceed state prices. Commercial reserves may in the future have to be bought at market prices, analysts said.

Talk of new cuts in output lifts oil

MARKETS REPORT

By Robert Corzine and Gary Mead

World oil markets continued to be driven by speculation that leading exporters might soon embark on a new round of output cuts as part of their effort to reverse recent price weakness.

The price of Brent Blend for June delivery – the bellwether futures contract on London's International Petroleum Exchange – firmed in late trading to \$14.77 a barrel, up 13 cents on Tuesday's close.

Yesterday, the United Arab Emirates joined the ranks of oil exporters expressing support for further cuts.

The official UAE news agency quoted Obaid bin Saif al-Nasseri, the oil minister, as saying he would support additional moves by the Organisation of Petroleum Exporting Countries and other leading exporters to restrain production.

Over the past week, oil prices have generally moved in line with speculation about possible production cuts, although the publication early yesterday of the latest weekly data on US oil and refined product stocks helped push prices to an intraday low of \$14.45 a barrel in earlier trading.

Figures published from the Department of Energy in Washington showed a big, 2.2m barrel rise in US crude stocks, although the American Petroleum Institute estimated the increase at only 700,000 barrels.

Strong investment fund buying saw cocoa futures on the London International Financial Futures Exchange climb to five-month highs yesterday, the July contract finishing at £1,122 a tonne, £29 above the previous day's close. Traders said the buying was all speculative-led.

Chilean copper mine may be sold

By Kenneth Gooding, Mining Correspondent

Both owners of the \$600m Zaldivar copper mine in Chile's Atacama desert are considering selling their 50 per cent stakes.

Outokumpu, the Finnish mining and metals group, responded yesterday to persistent rumours and confirmed it was "exploring possibilities" of a sale. However, "no decisions on a sale have been made", it said.

Placer Dome, the Canadian mining concern, said on Tuesday that Zaldivar no longer fitted its long-term strategy as a gold miner and it was considering selling its stake.

Tony Warwick-Ching, analyst at Flemings Global Mining Group, said it was "astonishing" both partners wanted to sell. "It is a lousy time to sell. The big scramble for copper assets ended a couple of years ago," he said.

Zaldivar started production in November 1995. The open pit mine was expected to produce about 2m tonnes of copper over its 19-year life at an average cash cost of \$1,146 a tonne.

Copper cathodes are produced by the solvent extraction-electrowinning technology in a plant with an annual capacity of 125,000.

The mine suffered a number of start up problems and its costs have been higher than forecast.

Last year it produced 96,219 tonnes of copper at a cash cost of \$1,344 a tonne and total costs of \$1,895. Last night on the London Metal Exchange copper was \$1,836 a tonne.

Placer said Zaldivar's output is scheduled to increase this year to 110,000 tonnes of cathode copper and 12,700 tonnes of copper in concentrate, an intermediate material, for a total of 122,700 tonnes.

Demand for elastomers up by 6%

By Gary Mead

Global demand for elastomers – both natural and synthetic rubber – grew by 6 per cent in 1997, according to figures published by the International Rubber Study Group.

The IRSG said the increase was a record for the third successive year but added that production levels stagnated and world stocks fell.

Other analysts estimated the growth in demand was slightly less than 4 per cent. However, there is a consensus that the big western tyre manufacturers have been building stocks in anticipation of possible civil unrest in Indonesia, one of the world's biggest producers of natural rubber.

"Singapore natural rubber traders are certain that some of those tyre producers which are heavily reliant on Indonesian rubber, such as Goodyear, have been stockpiling in recent months," said one analyst yesterday.

Total global elastomer production (natural and synthetic rubber) is now estimated by the IRSG to be above 16.5m tonnes, while stocks have fallen to below 16m tonnes.

Global consumption in 1997 is put at 16.7m tonnes, with the prospect for 1998 being for little or no growth as a result of the economic slowdown in east Asia.

However, it is now clear that growth in production of natural rubber alone was last year almost stagnant, as the world's three main natural producers – Indonesia, Malaysia and Thailand – were badly hit by currency crises and economic turmoil.

Malaysia's production appears to have been the worst affected and registered a drop of 10 per cent, according to Tim Hunt, analyst with commodity specialists LMC International.

"Malaysia's particularly sharp decline was partly because the country did not devalue its currency as much as Thailand and Indonesia," said Mr Hunt. Thailand's production increased by about 5.3 per cent, he added, but "the jury is still out on Indonesia's production for 1997".

Natural rubber traders and consumers are becoming concerned at the possibility that the current civil unrest in Indonesia may worsen.

Although shipments of rubber have not yet been interrupted, some traders have in recent days reported tightness in supply from north Sumatra, one of Indonesia's biggest rubber-growing regions, where the city of Medan – an important commodity-dealing centre for rubber and palm oil – has this week been the scene of riots.

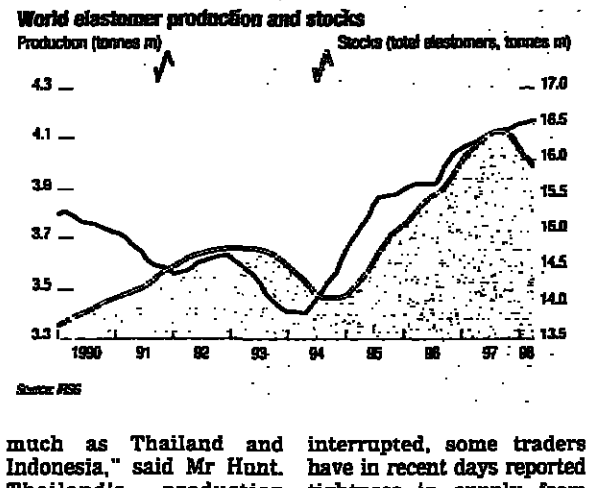
On top of fears of current social unrest, traders have also expressed anxiety that last year's widespread fires and the smoke haze they created may have significantly impeded tapping and reduced photosynthesis, reducing Indonesia's production level to a point where supply tightness might be felt later in 1998.

As yet there has been little impact on prices, which in recent months "had been trading down but, somewhat in the face of bearish indicators, have recovered slightly the past month," according to Mr Hunt.

He pointed out that not only have big users of natural rubber been building stocks, but there is still the threat of the Thai government natural rubber stockpile overhanging the market, now estimated to be as much as 100,000 tonnes.

"There is a degree of uncertainty over that stockpile. However, there is now market talk that the rubber has begun to deteriorate because of poor warehousing," said one analyst.

World elastomer production and stocks



Source: IRSG

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1411.5-12.5	1438-39
Previous	1411.5-2.5	1439-40
High/low		1444/1434
AM Official	1412.5-13.5	1440-40.5
Kerb close		1433-34
Open int.	252,992	
Total daily turnover	65,195	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1287-92	1310-12
Previous	1288-93	1312-4
High/low		1314/1308
AM Official	1286-90	1308-10
Kerb close		1305-10
Open int.	6,761	
Total daily turnover	1,886	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	549.5-50.5	565-6
Previous	550-1	565.5-6.0
High/low		566/562
AM Official	548-48.5	563.5-64.0
Kerb close		562-3
Open int.	35,207	
Total daily turnover	4,855	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	5400-10	5495-500
Previous	5440-50	5535-40
High/low		5560/5470
AM Official	5385-95	5480-85
Kerb close		5480-90
Open int.	49,898	
Total daily turnover	21,116	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5815-25	5745-50
Previous	5830-40	5745-55
High/low		5750/5710
AM Official	5830-35	5755-60
Kerb close		5730-35
Open int.	17,740	
Total daily turnover	4,446	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1099-100	1125-26
Previous	1101-2	1127-8
High/low		1128/1116
AM Official	1099.5-100	1125.5-26.0
Kerb close		1116-17
Open int.	80,560	
Total daily turnover	21,297	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1822.5-23.5	1835-36
Previous	1859-60	1870-1
High/low		1867/1818
AM Official	1847-47.5	1858-58.5
Kerb close		1819-20
Open int.	171,048	
Total daily turnover	65,957	

■ LME AM Official £/$ rate: 1.6608
LME Closing £/$ rate: 1.6615

Spot: 1.6617 3 mths: 1.6547 6 mths: 1.6496 9 mths: 1.6445

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
May	81.35	-2.35	83.20	81.00	596	2,995
Jun	81.75	-2.40	83.40	81.30	125	3,533
Jul	82.00	-2.50	84.45	81.40	2,585	30,676
Aug	81.75	-2.15	83.90	81.60	27	1,779
Sep	81.75	-2.05	83.70	81.20	143	6,516
Oct	81.55	-1.85	82.30	81.40	6	1,490
Total					3,952	67,397

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	299.90-300.40		
Opening	303.50-303.80		
Morning fix	303.50	182.57	450.30
Afternoon fix	301.00	181.10	448.34
Day's High	303.70-304.00		
Day's Low	300.30-300.60		
Previous close	303.00-303.50		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.46	6 months	4.01
2 months	4.31	12 months	3.79
3 months	4.23		

Silver Fix	p/troy oz.	US cts equiv.
Spot	365.65	607.75
3 months	368.25	609.35
6 months	368.60	607.75
1 year	369.70	606.20

Gold Coins	$ price	£ equiv.
Krugerrand	304-307	183-185
Maple Leaf	-	-
New Sovereign	70-73	42-44

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	300.5	-3.0		308.2	1	1
Jun	301.6	-3.0	304.9	300.7	22,567	86,553
Aug	303.8	-3.0	307.0	302.8	1,012	10,835
Oct	305.8	-3.0	307.9	305.0	12	5,257
Dec	307.7	-3.1	311.1	306.8	915	18,077
Feb	309.4	-3.1	309.0	309.0	5	8,996
Total					24,558	173,676

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	395.0	-3.0	399.9	393.0	901	12,576
Oct	392.0	-3.0	394.0	394.0	44	774
Jan	388.0	-3.0	-	-	4	46
Apr	385.5	-3.0	-	-	1	11
Total					945	13,408

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	307.35	+0.35	309.90	300.00	261	3,228
Sep	270.85	+4.35	271.00	265.00	83	1,407
Dec	260.85	+4.35	-	-	-	291
Total					344	4,928

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	588.1	-18.6	609.0	585.0	255	941
Jul	591.8	-19.0	617.0	588.0	16,689	44,526
Sep	593.8	-18.0	615.5	590.0	984	6,324
Dec	593.8	-17.9	615.0	592.0	1,168	11,935
Jan	593.7	-17.9	-	-	-	15
Mar	592.9	-17.9	599.0	599.0	-	2,610
Total					19,097	74,273

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	15.31	-0.16	15.47	15.16	80,351	113.7k
Jul	16.10	-0.13	16.21	15.95	34,233	63,262
Aug	16.57	-0.12	16.67	16.42	18,673	39,028
Sep	16.80	-0.19	16.93	16.80	9,217	29,373
Oct	17.00	-0.18	17.10	16.98	4,755	20,044
Nov	17.17	-0.17	17.23	17.17	3,609	11,793
Total					162,661	461,347

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	14.61	-0.03	14.62	14.45	15,641	48,434
Jul	14.90	-0.06	14.94	14.78	11,341	57,526
Aug	15.22	-0.09	15.24	15.09	2,550	25,915
Sep	15.47	-0.08	15.50	15.34	827	12,847
Oct	15.83	+0.06	15.70	15.58	278	10,226
Nov	15.95	+0.01	15.86	15.82	275	10,395
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	44.00	-0.30	44.30	43.65	18,576	46,757
Jul	44.90	-0.34	45.25	44.65	5,103	20,932
Aug	45.95	-0.29	46.10	45.70	2,398	13,816
Sep	46.90	-0.34	47.10	46.85	928	12,057
Oct	48.05	-0.19	48.10	48.00	468	9,052
Nov	48.85	-0.34	49.10	48.85	110	8,689
Total					31,161	163,762

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	134.50	-0.75	135.00	134.00	6,940	19,179
Jun	136.25	-1.00	136.75	135.75	6,517	22,865
Jul	138.75	-0.75	139.00	138.25	978	11,226
Aug	141.50	-0.75	141.75	141.25	145	9,974
Sep	144.00	-1.00	144.25	143.25	739	10,513
Oct	146.75	-0.75	146.75	146.00	750	13,526
Total					15,931	133,778

■ NATURAL GAS IPE (1,000 therms; pence per therm)

Jun	9.210	+0.030	9.210	9.200	70	1,830
Jul	9.050	-0.080	9.080	9.050	20	1,250
Total					730	20,985

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	2.195	-0.020	2.220	2.140	19,555	36,948
Jul	2.250	-0.021	2.265	2.200	5,442	25,270
Aug	2.290	-0.031	2.315	2.250	4,048	21,384
Sep	2.315	-0.029	2.330	2.295	2,117	15,580
Oct	2.350	-0.029	2.370	2.330	1,810	15,579
Nov	2.490	-0.025	2.510	2.465	1,394	10,811
Total					[illegible]	[illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	52.45	-0.68	53.30	52.00	20,913	48,494
Jul	53.60	-0.68	54.20	53.15	7,108	22,232
Aug	54.00	-0.45	54.15	53.65	2,858	15,138
Sep	53.60	-0.38	53.70	53.20	1,126	14,732
Oct	52.35	-0.53	52.40	52.35	175	4,527
Nov	52.26	-	-	-	48	631
Total					[illegible]	[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	76.75	+0.15	76.75	75.75	44	240
Jul	78.65	-0.45	78.65	77.75	176	1,944
Sep	76.75	+0.45	76.10	76.10	-	155
Nov	78.75	+0.45	78.40	78.10	89	3,264
Jan	80.75	+0.45	80.25	80.10	52	617
Total					388	8,651

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

May	305.00	+7.00	305.00	300.00	2,847	2,561
Jul	316.00	+7.00	317.50	309.00	20,224	71,990
Sep	325.25	+6.50	326.50	320.50	1,678	15,239
Dec	338.50	+7.00	340.00	332.00	1,706	22,615
Mar	349.50	+7.50	350.00	344.00	70	3,539
Jul	356.00	+6.00	356.00	355.00	35	201
Total					26,547	116,433

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

May	252.25	+4.50	252.50	247.75	8,560	8,592
Jul	261.00	+4.50	261.25	256.25	35,816	153,448
Sep	267.25	+3.25	267.75	263.75	2,111	36,634
Dec	272.75	+3.00	273.00	268.50	18,347	121,830
Mar	280.50	+3.00	280.75	277.50	336	10,872
May	285.00	+3.00	285.00	283.00	329	1,711
Total					63,991	341,179

■ BARLEY LIFFE (100 tonnes; £ per tonne)

May	78.00	-	-	-	-	72
Sep	73.75	+0.25	-	-	-	10
Nov	75.75	+0.25	-	-	-	760
Jan	77.75	+0.25	-	-	-	104
Mar	79.75	+0.25	-	-	-	1
Total					0	947

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

May	659.00	+6.50	660.00	653.00	4,733	7,468
Jul	656.00	+7.75	657.00	647.00	33,588	73,835
Aug	653.50	+7.50	654.00	645.25	1,182	14,268
Sep	640.00	+8.00	641.00	632.00	620	3,544
Nov	634.25	+8.25	635.00	625.00	10,042	45,442
Jan	640.25	+7.25	640.50	633.50	437	2,269
Total					50,851	148,229

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

May	28.86	+0.03	28.84	28.53	3,359	4,767
Jul	29.06	+0.09	29.18	28.77	15,854	96,341
Aug	29.10	+0.02	29.25	28.93	2,286	19,629
Sep	29.07	+0.06	29.20	28.98	1,149	12,026
Oct	28.88	-0.01	28.98	28.75	742	7,741
Dec	28.76	+0.04	28.80	28.58	5,590	26,517
Total					30,775	170,031

■ SOYABEAN MEAL CBT (100 tons; $/ton)

May	159.8	+3.4	160.0	158.3	5,620	4,267
Jul	163.6	+3.3	163.8	160.2	17,273	63,136
Aug	165.0	+3.3	165.0	161.5	1,581	18,879
Sep	165.9	+2.9	165.6	163.0	729	13,110
Oct	165.7	+2.7	165.7	163.0	585	8,807
Dec	168.2	+3.0	168.3	165.5	3,582	21,661
Total					29,535	134,081

■ POTATOES LIFFE (20 tonnes; £ per tonne)

Jan	138.0	-	-	-	-	-
Nov	75.0	-	-	-	-	3
Mar	105.0	+5.0	-	-	-	-
Apr	155.0	+4.5	156.0	153.0	67	1,118
May	185.0	+4.5	-	-	-	29
Total					67	1,147

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

May	995	+10	1003	985	39	353
Jun	960	+25	-	-	-	47
Jul	940	+20	935	935	2	345
Oct	1068	+23	1070	1050	47	185
Jan	1090	+15	1080	1080	44	58
Total					132	998

	Close	Prev
BFI	1002	998

PULP AND PAPER

■ PULPEX OMLX (US$; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	535.75	-0.25	535.75	535.75	1	549
Sep	556.50	+1.00	556.50	556.25	6	326
Total					8	945

FUTURES DATA
All futures data supplied by CMS.

Tea from the Tea Brokers' Association
London: Selective demand. Bright flavouring Burundis sold well but prices were generally lower, apart from a few selected lines which held firm. Medium East Africans were up to 15 pence easier where sold while Central Africans were neglected. Offshores: A few colory Kenyans sold at easier rates but the majority of offerings were neglected. Price indications (previous sale in brackets): best available 150p (186p), good 140p (160p), good medium 115p (140p), medium 100p (120p), low medium 75p (84p). The London Tea Auction is now fortnightly. The next report will appear on May 13.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	1100	+27	1096	1077	418	1,596
Jul	1122	+29	1122	1097	5,500	29,184
Sep	1140	+26	1139	1119	900	22,670
Dec	1158	+25	1157	1135	700	32,055
Mar	1176	+23	1177	1157	87	39,370
May	1190	+23	1188	1173	89	13,126
Total					8,554	150,729

■ COCOA CSCE (10 tonnes; $/tonnes)

May	1723	+24	1724	1690	17	826
Jul	1721	+28	1725	1684	2,561	25,367
Sep	1737	+24	1740	1701	574	12,367
Dec	1765	+27	1766	1728	249	15,077
Mar	1793	+27	1790	1764	22	9,842
May	1811	+27	-	-	47	3,767
Total					3,605	73,588

■ COCOA (ICCO) (SDR's/tonne)

May 5	Price	Prev. day
Daily	1305.72	1308.95

■ COFFEE LIFFE (5 tonnes; $/tonne)

May	1933	-7	1990	1915	310	5,655
Jul	1843	-7	1890	1825	2,474	22,618
Sep	1791	-9	1832	1772	701	6,317
Nov	1754	-11	1791	1754	41	2,338
Jan	1719	-11	-	-	-	158
Mar	1684	-11	-	-	-	357
Total					3,526	37,467

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

May	129.00	-5.00	134.00	128.00	148	1,278
Jul	127.10	-5.45	132.00	125.50	6,065	16,949
Sep	125.20	-5.00	129.75	123.50	1,119	7,360
Dec	122.15	-4.20	126.00	121.00	553	6,396
Mar	119.10	-4.25	123.00	118.00	364	2,056
May	117.25	-4.35	121.75	117.00	115	845
Total					8,372	35,418

■ COFFEE (ICO) (US cents/pound)

May 5		Prev. day
Comp. daily	115.64	112.82
15 day average	117.78	118.40

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

Aug	258.2	+10.4	258.0	248.1	3,189	18,317
Oct	258.8	+8.3	259.0	250.0	1,147	11,523
Dec	263.2	+7.9	263.5	258.3	37	1,712
Mar	269.7	+8.2	270.0	263.5	498	1,601
May	273.7	+7.9	274.0	267.5	33	514
Aug	277.7	-	278.0	272.9	10	110
Total					4,924	33,782

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

Jul	8.96	+0.43	8.97	8.56	9,280	86,591
Oct	9.17	+0.40	9.18	8.81	3,036	50,941
Mar	9.59	+0.32	9.61	9.32	910	24,967
May	9.63	+0.30	9.49	9.40	126	3,505
Jul	9.84	+0.29	-	-	155	3,525
Oct	9.86	+0.27	-	-	150	3,323
Total					13,914	178,781

■ COTTON NYCE (50,000lbs; cents/lbs)

May	63.86	+0.48	63.95	63.60	13	18
Jul	65.66	+0.94	65.75	64.75	5	32,315
Oct	68.43	+0.98	68.43	67.85	105	3,825
Dec	69.74	+0.87	69.75	68.97	2,960	32,765
Mar	71.13	+0.73	71.00	70.55	215	7,245
May	71.80	+0.69	-	-	60	3,003
Total					7,280	84,869

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

May	110.25	-1.45	112.25	108.80	1,311	1,373
Jul	114.25	-1.10	115.80	113.55	10,898	19,396
Sep	116.85	+1.20	118.20	116.40	120	5,362
Nov	118.00	+0.70	120.75	118.50	477	3,871
Jan	120.25	+0.15	121.00	119.50	11	1,576
Mar	122.50	+0.05	-	-	2	817
Total					12,844	33,137

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

May 6	May 5	month ago	year ago
1623.2	1621.0	1654.3	1973.8

■ CRB Futures (Base: 1967 = 100)

May 5	May 4	month ago	year ago
225.45	225.76	[illegible]	[illegible]

■ GSCI Spot (Base: 1970 = 100)

May 5	May 4	month ago	year ago
165.04	166.30	163.87	194.00

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-425	to	514,325
Aluminium alloy	-745	to	48,800
Copper	-1,600	to	256,075
Lead	-500	to	106,500
Nickel	-270	to	64,230
Zinc	-3,300	to	517,615
Tin	-140	to	6,165

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jun	68.550	-0.250	68.850	68.425	7,101	43,038
Aug	69.300	-0.125	69.525	69.150	2,759	24,031
Oct	69.325	-0.125	69.475	69.150	1,234	13,582
Dec	70.100	-0.125	70.275	70.025	157	4,846
Feb	71.075	-0.225	71.275	71.050	123	1,506
Apr	72.075	-0.125	72.175	72.050	357	501
Total					11,751	87,514

■ LEAN HOGS CME (40,000lbs; cents/lbs)

Jun	61.050	-0.200	61.650	60.925	3,438	14,014
Jul	60.800	-0.300	61.400	60.700	1,640	6,893
Aug	58.300	-0.450	58.900	58.200	852	4,453
Oct	53.975	-0.225	54.300	53.850	302	3,564
Dec	54.325	-0.300	54.800	54.300	122	3,316
Feb	58.575	-1.125	57.700	58.000	122	601
Total					6,485	33,197

■ PORK BELLIES CME (40,000lbs; cents/lbs)

May	59.025	-0.750	60.250	58.750	176	1,423
Jul	57.100	-0.575	58.600	56.875	1,215	4,444
Aug	54.800	-0.300	56.250	54.700	87	1,054
Sep	48.700	+0.600	49.100	-	3	28
Nov	45.300	-0.200	46.650	45.300	92	231
Total					1,578	7,180

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Jun	Sep	Jun	Sep
1350	74	112	6	20
1400	38	79	19	36
1450	15	53	46	59
■ COPPER (Grade A) LME	Jun	Sep	Jun	Sep
1700	119	140	12	47
1800	53	85	44	91
1900	17	48	108	152
■ COFFEE LIFFE	Jul	Sep	Jul	Sep
1850	73	124	80	183
1900	55	114	112	223
1950	42	107	149	268
■ COCOA LIFFE	Jul	Sep	Jul	Sep
1100	46	72	24	32
1125	35	58	38	43
1150	26	46	54	56
■ BRENT CRUDE IPE	Jun	Jul	Jun	Jul
1450	27	-	26	-
1500	14	-	-	-
1550	-	-	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel) +or-

Dubai	\$13.16-3.19x	+0.095
Brent Blend (dated)	\$14.09-4.12	-0.045
Brent Blend (Jun)	\$14.71-4.74	+0.005
W.T.I.	\$15.40-5.42x	+0.02

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	\$165-167	-1
Gas Oil	\$136-137	-0.5
Heavy Fuel Oil	\$70-72	-1
Naphtha	\$143-144	+3
Jet fuel	\$150-151	-0.5
Diesel	\$142-144	+1

■ NATURAL GAS (Pence/therm)

Bacton (Jun)	9.15-9.25

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

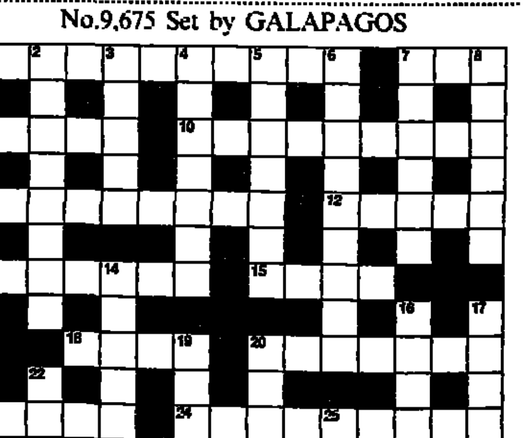
Gold (per troy oz)♣	\$300.15	-3.10
Silver (per troy oz)♣	607.75c	-15.75
Platinum (per troy oz.)	\$398.00	-1.00
Palladium (per troy oz.)	\$355.00	-3.00
Copper	89.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	21.36r	+0.07
Tin (New York)	278.5	
Cattle (live weight)	84.01p	+0.10*
Sheep (live weight)	118.45p	+11.93*
Pigs (live weight)†	68.42p	+2.54*
Lon. day sugar (raw)	\$216.60	+0.90
Lon. day sugar (wte)	\$252.90	+0.40
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (May)¥	48.75p	
Rubber (Jun)¥	47.75p	
Rubber (KL RSS No1)	284.50m	-3.00
Coconut Oil (Phil)§	700.0y	-10.0
Palm Oil (Malay)§	680.0	+5.0
Copra (Phil)§	\$410.0y	
Soyabeans (US)	178.0	+2.0
Cotton Outlook 'A' index	63.70	+0.25
Wooltops (64s Super)	354p	

[illegible]

JOTTER PAD

CROSSWORD

No.9,675 Set by GALAPAGOS



ACROSS
1 Promote savage cut in points for Roman offices (11)
7 Cover without a bed (3)
9 Poet's anger about monarch (5)
10 Present day clothing points to one taking delivery (9)
11 Crusading Scotsman in charge following disorder (9)
12 Precious toddler's first squeaky utterance (5)
13 Quantity of paper accepted by the German idealist (7)
15 Move quickly to get most of exchange return (4)
18 Cut fancy stuff in guitar piece (4)
20 Gets extremely wet (7)
23 Ceremony on square is of little significance (5)
24 Breaking faith, attempt to take in every monarch (9)
26 There's little money in abandoned sex with Olive: it's shocking (9)
27 Permit father to rear one animal (5)
28 Fix match (3)
29 Use things artfully to measure without inspection (5,6)

DOWN
1 Drips may construct wonderful buildings (8)
2 Joined press chief after silent revolution (8)
3 Priest takes me back to get oily stuff (5)
4 Horseman shows hesitation after the first fall (7)
5 Dictator owing money has less substance (7)
6 Protected trees held to be in a bad way (9)
7 Knocked out business and took off (6)
8 You and I accepted by twenty-six with an unknown number (6)
14 Devastating rumours broadcast about press chief's rejection (9)
16 Provoke hostility of strange goddess (8)
17 Old countryman says rain is blustery (8)
19 The first six Tintagel characters producing lace (7)
20 Oddly, porter dispatched gift (7)
21 Confirm old volunteers' return to trial (6)
22 The Spanish politician is returned without difficulty (6)
25 Acknowledge credit before summit (5)

Solution 9,674

[illegible]

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

Fidelity Currency Funds Ltd

Jupiter Asset Management (Bermuda) Ltd

BERMUDA (REGULATED)(**)

Bermuda Intl Invest Mgmt Ltd

Integral Investment Management International Ltd

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

Royal Bk of Canada O/S Fd Mgrs Ltd

IRELAND (FSA RECOGNISED)

AIB Fund Management Ltd

Aberdeen Pacific International Fund Plc

IRELAND (REGULATED)(**)

ABN AMRO Global Liquidity Funds Plc (x)

Bank of Ireland Unit Managers Ltd - Contd.

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

Prudential Fund Managers (Jersey) Ltd

LUXEMBOURG (FSA RECOGNISED)

ABN AMRO Funds (x)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Aberdeen Fund Mngrs (Luxembourg) Ltd (u)

4 Boulevard Royal L 2449 Luxembourg 00 352 227001

Fleming Group - Contd.

Mercury Asset Management - Contd.

Morgan Stanley Sicav

ACM Offshore Funds - Contd.

Credit Suisse Asset Mgmt Funds - Contd.

Merrill Lynch Asset Management - Contd.

Swiss Bank Corporation - Contd.

Equitable Life (International)

LUXEMBOURG (REGULATED)(**)

ACM Offshore Funds

OFFSHORE INSURANCES

هكذا من الاصل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or –	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Allied Domecq	[illegible]	620½	-1½	646	407½	1,429	4.0	14.9
Bulmer (HP)	[illegible]	334	—	602½	295	–	5.5	10.4
Burn Stewart	[illegible]	21½	—	78½	21½	15	9.9	–
Diageo	[illegible]	742	+9	764	432	8,754	7.4	32.4
Glenmorangie A	†	790	—	985	765	–	2.1	18.9
B	†	812½	—	1000	880	–	0.9	43.7
Highland	[illegible]	313½xd	-½	347	258	130	3.6	14.5
5¼pc Cv Sb Bd		98¼	—	99½	85½	–	5.9	–
Kirin Y	[illegible]	[illegible]	-23	654¼	416¾	–	1.1	–
Matthew Clark	[illegible]	201½	—	277½	157	62	12.4	6.5
Merrydown	[illegible]	44	-1	108½	39½	–	8.8	–
Seagram C$		£24⅞	-⅛	£25⅛	£19⅛	–	1.1	–

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING, VEHICLES

ENGINEERING, VEHICLES - Continued

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Continued

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS & TEXT

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PHARMACEUTICALS - Continued

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Continued

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AIM

AIM - Continued

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
FTSE 100 TRAINS		[illegible]	—	[illegible]	£472	–	–	–

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4.30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- • Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ф Figures or report awaited
- Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- Indicated dividend yield after pending scrip and/or rights issue
- ф Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- Unregulated collective investment scheme.

a Yield based on annualised dividend. b Figures based on prospectus or other official estimates. g Assumed dividend yield after rights issue. h Assumed dividend yield after scrip issue. n Rights issue pending. q Earnings based on preliminary figures. s Dividend yield excludes a special payment. t Indicated dividend yield, p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings. z Dividend yield includes a special payment. F Yield based on prospectus or other official estimates for 1998-99. G Assumed yield after pending scrip and/or rights issue. H Yield based on prospectus or other official estimates for 1997. K Yield based on prospectus or other official estimates for 1998. L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other official estimates for 1997-98. N Dividend is paid in whole or part as a FID (Foreign Income Dividend). R Forecast annualised yield, p/e based on prospectus or other official estimates. W Pro forma figures. Z Dividend yield to date.

Abbreviations: ex dividend; ex scrip issue; ex rights; ex all; ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1495 a year for each security shown, subject to the Editor's discretion

♣ FT Free Annual Reports Club

You can obtain the current annual/interim report of any companies annotated with the ♣ . Ring 0181 770 0770 (open 24 hours including weekends) or Fax 0181 770 3822. Reports may also be ordered via the Internet at http://www.icbinc.com. All reports will be sent the next working day, subject to availability.

FT Company Focus / Focus Plus

Please note that FT Company Focus/Focus Plus reports ceased to be available as from May 4th 1998. However ShareFinder company reports, incorporating current and historic financial information, key performance data and concensus recommendations, may still be purchased by calling 0870 601 4800.

FT Cityline

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An International service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.

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The share prices printed on these pages are also available on the Internet at http://www.FT.com.

Footsie scrambles into black after late glitch

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

The focus of the UK equity market's attention remained firmly on the second-liners and small cap issues yesterday with the leaders languishing through much of the session, although they picked up during the final minutes of trading.

A late calculation of the FTSE 100 saw the index finish a net 5.9 higher at 5,992.4. Only a minute before the official 4.30pm close the Footsie clambered into the black. After a delay of over half an hour, said by the Stock Exchange to have been caused by a "technical glitch", the final FTSE 100 figure was announced.

The front-line stocks were never really pressured, rather they were simply ignored by the institutions, which preferred to seek out value in the FTSE 250 and SmallCap arenas.

But there was genuine good demand for the stocks making up the junior indices, both of which continued their sequence of record closing and intra-day records.

The leaders were "unhappy but never totally dejected" as one dealer put it. "We were unsettled by worrying performances from Wall Street and the Asian markets, but a quick glance at turnover levels shows that any selling was on a very small scale," the dealer continued.

Activity in the non-FTSE 100 areas accounted for 62 per cent of overall business, where the total reached 860m shares by the 6pm cut-off point.

The FTSE 250 index extended its run of good performances, ending the day up 23.1 and penetrating the 5,700 level in the process, finishing at 5,705.4. At its best the 250 index hit an intra-day record of 5,706.5.

The FTSE SmallCap delivered a mirror image of the 250 index performance, gradually moving ahead to hit new intra-day and closing peaks, and finishing a net 10.8 ahead at 2,676.1.

Sentiment in the leaders was hampered from the outset by worryingly weak performances from Wall Street and most of the Asian markets.

Wall Street's Dow Jones Industrial Average slipped 45 points on Tuesday evening, on a mixture of concerns about corporate profits and a return of the interest rate worries that most traders had tended to shift to the back burners over recent sessions.

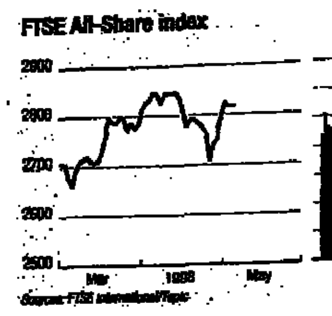
The Dow came under renewed pressure yesterday, sliding around 40 points not long after London finished trading for the day.

Adding to dealers' worries was a generally poor showing by Asian stock markets, where Tokyo prompted plenty of jitters, finishing over 2 per cent lower. Hong Kong fell back, but not as much as Tokyo, while Seoul dipped around 4 per cent.

News of merger discussions between Daimler-Benz of Germany and Chrysler of the US was a major talking point in the market and induced some keen interest in many motor/engineering stocks, among them British Aerospace, Smiths Industries and GEC.

Other bull points included a welcome return to the FTSE 100 outperformance table by J Sainsbury, after warmly received results, and persistent talk that more merger and acquisition stories are about to burst on the market.

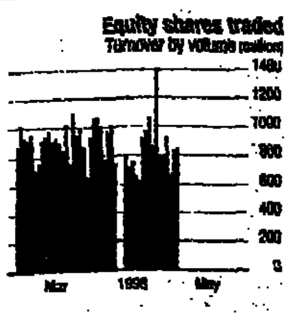
FTSE All-Share index



Source: FTSE International/Topic

Equity shares traded

Turnover by volume (million)



Indices and ratios

FTSE 100	5992.4	+5.9
FTSE 250	5705.4	+23.1
FTSE 350	2893.3	+4.6
FTSE All-Share	2822.24	+4.88
FTSE All-Share yield	2.78	2.80
FT 30	3882.7	+7.8
FTSE Non-Fins p/e	23.22	23.16
FTSE 100 Fut Jun	5985.0	-40.0
10 yr Gilt yield	5.87	5.87
Long gilt/equity yld ratio	2.12	2.11

Best performing sectors

1 Electronic & Elect Equip +4.4
2 Engineering +2.6
3 Paper, Pckg & Printing +1.8
4 Telecommunications +1.7
5 Gen Industrials +1.7

Worst performing sectors

1 Breweries, Pubs & Rest -1.9
2 Life Assurance -1.2
3 Pharmaceuticals -1.1
4 Oil Exploration & Prod -1.0
5 Water -0.7

Dutch prospect for EMI

COMPANIES REPORT

By Peter John and Martin Brice

EMI was flat as Philips, the Dutch electronics group, threw a couple of new possibilities in the group's way.

Philips said it was "evaluating various strategic options" with respect to its 75 per cent stake in PolyGram, the music and film group. It was assumed by the market that Philips meant to dispose of part or all of its stake in PolyGram in order to concentrate on the growing consumer electronics area.

The downside for EMI is that the suggested US suitors – Seagram, Walt Disney and Kirk Kerkorian, the US corporate raider, might be tempted away.

However, there is also the prospect that EMI might consider a link-up with PolyGram. One analyst said the fit between the two companies was "almost too good". He said there were huge amounts of overlap that would invite regulatory restraint but also provide immense scope for cost-cutting. The shares ended the day 2 higher at 590p.

Pilkington was one of the better performers in the FTSE 250 as the stock benefited from three factors.

Glassmaker Saint Gobain of France said first-quarter sales rose 13 per cent, while price rises for float glass were sticking. The weakening of sterling against the D-Mark also helped Pilkington, which has 14 per cent of sales in the UK.

Thirdly, the sale by PPG of the US of its French and Italian glass operations to Glaverbel of Belgium signalled sector consolidation.

Mike Betts, building industry analyst at Goldman Sachs, said: "We estimate the top three companies in Europe will now control 83 per cent of float glass manufacturing capacity. Bearing in mind the current shortage of capacity this should lead to more stability in pricing." Pilkington shares rose 4½ to 136½p.

The Daimler-Benz/Chrysler merger talks injected plenty of enthusiasm into the engineering/aerospace sectors, as rumours spread of further restructuring in the related industries.

Smiths Industries raced up 66 to 965p, GEC 31 to 521p and British Aerospace 29½ to 532½p. Turnover in all three stocks was well above usual levels of activity.

Legal & General fell more than 2 per cent as a couple of brokers turned the spotlight on the life sector. HSBC has removed its straight "buy" from Legal and highlighted its cautious stance on the sector for two reasons.

First, it points out that the sector tracks sterling's performance against the D-Mark pretty closely and sterling has started to slip.

Second, the shift in sterling has seen a move from financials to exporters, which started with the mortgage lenders and is starting to impact on the lifes.

Goldman Sachs added to HSBC's caution with a big sector review, which updated its nervous outlook and its feeling that "valuations remain expensive in spite of recent corrections".

Legal fell 16 to 722p, Prudential 13 to 842p, Norwich Union 5 to 439p and Sun Life & Provincial 3 to 589p.

However, David Hudson at Crédit Lyonnais believes the woes among the life stocks are nothing compared with the black hole faced by the composites. "I have never felt so confident that the game is up. The earnings will not support these share prices," he said. He expects some stark shocks when soon-to-be merged Commercial Union and General Accident announce figures next week. CU fell 28 yesterday and GenAcc 23 to £14.35.

Alliance & Leicester extended earlier gains as the market gave a warm reception to the company's annual meeting statement.

The shares gained 29½ to 862p but Halifax and Woolwich were comparatively flat, rising 4 to 786p, and slipping 1½ to 333p.

Schroders said Alliance looked cheap relative to the sector after recent falls and reiterated its positive stance. HSBC Securities reinforced its "add" recommendation.

The former building society said first-quarter lending in 1998 had been "very close to its natural market share". The company's shares fell 6.5 per cent on Tuesday on nervousness ahead of the evening annual meeting, following reports of tough market conditions from two other former mutual societies in previous weeks.

Tate & Lyle sours

Tate & Lyle fell 24 to 460p on reduced first-half profits, and a warning of full-year results "substantially" below those for 1997.

The company said second-quarter gains in US high fructose corn syrup were offset by delays in plant commissioning and a one-off setback at its Amylum starch processing plant. A beet disease and the strength of the pound also affected the first-half performance.

J Sainsbury bucked the decline in the FTSE 100 to strike an advance of 22½ to 502½p as strong results from the retailer suggested it might be fighting back in the battle for market share.

The results came in at £728m, against a consensus forecast of about £723m, helping the shares to achieve one of the best performances in the Footsie. Sentiment in the shares was also helped by an announcement that Sainsbury's Bank would move into profit in the current year.

Sainsbury's co-broker, ABN Amro, shaved forecasts for the full year from £820m to £810m.

Asda lost 5 to 191½p with 12m traded although Tesco was up 6 to 573p.

N Brown firmed to 384p after the catalogue company announced profits up from £37m to £41m but said the outlook for consumer spending remained uncertain. The results prompted analysts to take about £6m off forecasts for this year, bringing the expected figure to £41m.

The company is still expected to seek expansion by acquiring Freemans from Sears, unchanged at 61p. N Brown offered to buy Freemans last year but could not agree a price.

Avis Europe rose 4 to 240p as it continued to benefit from recent strong results. Kyte Securities issued a buy note on the stock with a 275p price target.

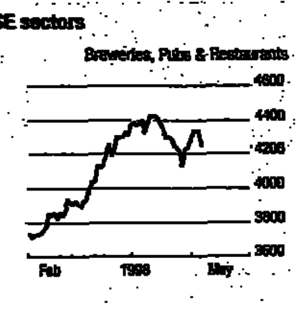
BTP added 29 to 475p as investors continued to respond to the chemical company's link with Pfizer's Viagra impotence drug.

AB Ports saw busy trade of 1.9m as a story went the rounds that a bid was being lined up at 420p a share, although traders pointed out that the stock was up 17 to 375p, and stood at a discount to the purported bid price.

Best and worst performing FTSE sectors

Electronic, Electrical equipment

Breweries, Pubs & Restaurants



Source: Datastream/ICV

FT 30 INDEX

	May 6	May 5	May 1	Apr 30	Apr 29	Yr ago	*High	*Low
FT 30	3882.7	3874.9	3872.8	3823.2	3752.7	2947.9	3882.7	3844.2
Ord. div. yield	2.82	2.82	2.83	2.86	2.91	3.76	4.22	2.83
P/E ratio net	25.18	25.15	25.08	24.78	24.34	17.67	25.88	15.80
P/E ratio nil	24.96	24.93	24.85	24.56	24.12	17.49	24.85	15.71

FT 30 since compilation: high 3882.7 06/05/98; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9	10	11	12	13	14	15	16	High	Low
3874.9	3861.2	3849.0	3860.0	3855.5	3860.9	3868.7	3867.3	3860.5	3882.7	3844.2

STOCK MARKET TRADING DATA

	May 6	May 5	May 1	Apr 30	Apr 29	Yr ago
SEAQ bargains	62,121	63,152	61,517	67,825	56,191	53,124
Equity turnover (£m)†	-	na	3710.1	3144.0	2535.7	2306.6
Equity bargains†	-	na	53,681	49,970	49,477	47,608
Shares traded (m)†	-	na	913.2	796.7	694.1	600.8
Total market bargains‡	-	na	65,730	70,036	54,717	na
Total turnover (£m)‡	-	na	4763.7	4771.4	3482.2	na
Total shrs traded (m)‡	*860.0	na	1114.1	1060.9	906.1	na
Tradepoint turnover (£m)	27.7	86.5	31.6	33.4	17.4	4.4
Tradepoint shrs traded	7,875	15,218	8,018	7,260	5,385	1,258

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	834	Total Highs	208	Total contracts	27,442
Total Falls	768	Total Lows	38	Calls	12,895
Same	1,393			Puts	14,547

May 6 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	5935.0	5985.0	-31.0	6039.0	5877.0	20509	154761
Sep	-	6050.0	-31.5	-	-	0	10231
Dec	-	6143.0	-31.0	-	-	0	125

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	5720.0	5732.0	+22.0	5720.0	5720.0	12	6093

FTSE 100 INDEX OPTION (LIFFE) (*5962) £10 per full index point

	5800 C	5800 P	5850 C	5850 P	5900 C	5900 P	5950 C	5950 P	6000 C	6000 P	6050 C	6050 P	6100 C	6100 P	6150 C	6150 P
May	[illegible]															
Jun	[illegible]															
Jul	[illegible]															
Aug	[illegible]															
Dec†	[illegible]															

Calls 592 Puts 2,122

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	5775 C	5775 P	5825 C	5825 P	5875 C	5875 P	5925 C	5925 P	5975 C	5975 P	6025 C	6025 P	6075 C	6075 P	6125 C	6125 P
May	[illegible]															
Jun	[illegible]															
Jul	[illegible]															
Sep	[illegible]															
Dec†	[illegible]															

Calls 4,829 Puts 5,801 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt cap (£m)	1998 High	1998 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
[illegible]											
§103	F.P.	24.7	127½	115½	JWE Telecom	127½	+2½	N1.54	3.9	1.5	21.4
-	F.P.	159.0	353½	328	LLP	329½		1.47	2.8	1.8	25.9
100	F.P.	39.0	97½	97½	Murray VCT 3	97½		-	-	-	-
-	F.P.	46.7	250	153	Ottakar's	234	-½	L2.5	6.2	1.3	15.1
-	F.P.	112.9	318½	276½	Oxford Glyco	305½	-2	-	-	-	-
*	F.P.	18.0	92½	90	Quester VCT 2	90		12.4	-	3.3	-
-	F.P.	-	36½	34½	Transport Dev B	36		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	May 5	% chg on day	May 4	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (32)	1263.55	+0.2	1261.89	1519.29	1.92	–	1810.93	891.28
Regional Indices								
Africa (14)	1349.40	+0.4	1344.23	1756.51	4.01	29.83	1884.25	921.78
Australasia (7)	1503.66	+0.3	1499.20	1765.03	2.20	20.91	1823.74	933.63
North America (11)	1215.54	+0.0	1215.22	1426.23	1.01	45.46	1574.16	864.86

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. CONSTITUENT CHANGE WITH EFFECT 7/5/98: Deletion: Plutonic Resources (Australasia). Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	May 6	Day's chge%	May 5	May 1	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5992.4	+0.1	5986.5	6010.3	4537.5	2.75	2.32	2.05	22.15	61.80	2614.86
FTSE 250	5705.4	+0.4	5682.3	5653.0	4519.0	2.88	2.41	2.06	21.17	52.48	2439.52
FTSE 250 ex IT	5759.2	+0.4	5734.8	5704.0	4543.2	2.94	2.48	2.13	20.01	54.60	2471.91
FTSE 350	2893.3	+0.2	2888.7	2895.2	2210.3	2.77	2.34	2.05	21.96	29.22	2579.45
FTSE 350 ex IT	2898.1	+0.2	2893.4	2900.2	–	2.78	2.35	2.07	21.72	29.53	1325.25
FTSE 350 Higher Yield	2865.3	+0.4	2852.8	2860.2	2138.0	3.70	3.15	1.95	17.33	35.78	2180.72
FTSE 350 Lower Yield	2938.5	–0.1	2940.2	2946.0	2289.1	2.06	1.71	2.20	27.62	23.82	2130.96
FTSE SmallCap	2676.06	+0.4	2665.32	2656.93	2304.85	2.85	2.30	1.58	27.77	21.64	2321.25
FTSE SmallCap ex IT	2672.28	+0.4	2660.82	2653.25	2306.10	3.04	2.46	1.64	25.03	22.55	2341.20
FTSE All-Share	2822.24	+0.2	2817.36	2822.77	2173.90	2.78	2.34	2.02	22.24	28.13	2553.39
FTSE All-Share ex IT	2829.34	+0.2	2824.43	2830.25	–	2.80	2.36	2.04	21.87	28.55	1318.99

FTSE Actuaries Industry Sectors

	May 6	Day's chge%	May 5	May 1	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(21)	4915.43	+0.2	4903.58	4943.77	4197.00	3.08	2.66	1.72	23.60	61.16	2255.29
12 Extractive Industries(5)	3405.82	+0.4	3393.56	3394.46	4212.64	4.00	3.66	2.07	15.08	76.82	1074.94
15 Oil, Integrated(4)	5491.39	+0.3	5473.00	5633.42	4340.28	3.07	2.62	1.84	24.80	62.01	2690.03
16 Oil Exploration & Prod(12)	3201.67	–1.0	3234.53	3196.46	3438.87	1.78	1.48	1.98	35.41	31.12	1988.58
20 GEN INDUSTRIALS(220)	2377.88	+1.7	2337.92	2321.45	1971.38	3.14	2.74	2.18	18.30	25.96	1394.44
21 Construction(36)	1646.63	—	1647.33	1650.00	1392.34	2.95	2.40	2.62	16.14	17.87	1467.38
22 Building Matls & Merchs(27)	1956.93	+0.4	1949.26	1931.45	1869.52	3.81	3.25	2.03	16.16	29.45	1065.44
23 Chemicals(24)	3022.02	+0.9	2995.82	2979.58	2299.89	3.10	2.90	1.83	22.03	30.75	1541.59
24 Diversified Industrials(10)	1487.50	+0.2	1484.24	1493.25	1509.33	3.78	3.55	2.26	14.60	20.65	914.12
25 Electronic & Elect Equip(36)	2787.52	+4.4	2670.52	2678.72	2127.03	3.10	2.51	1.62	24.92	20.85	1535.56
26 Engineering, Vehicles(10)	[illegible]										
28 Paper, Pckg & Printing(26)	[illegible]										
30 CONSUMER GOODS(92)	[illegible]										
32 Alcoholic Beverages(6)	[illegible]										
33 Food Producers(25)	[illegible]										
34 Household Goods & Texts(14)	[illegible]										
36 Health Care(14)	[illegible]										
37 Pharmaceuticals(29)	[illegible]										
38 Tobacco(2)	[illegible]										
40 SERVICES(277)	[illegible]										
41 Distributors(29)	[illegible]										
42 Leisure & Hotels(28)	[illegible]										
43 Media(41)	[illegible]										
44 Retailers, Food(13)	[illegible]										
45 Retailers, General(48)	[illegible]										
46 Telecommunications(10)	[illegible]										
47 Breweries, Pubs & Rest.(24)	[illegible]										
48 Support Services(52)	[illegible]										
49 Transport(25)	[illegible]										
60 UTILITIES(31)	[illegible]										
62 Electricity(9)	[illegible]										
64 Gas Distribution(2)	[illegible]										
66 Telecommunications...	[illegible]										
68 Water(12)	[illegible]										
69 NON-FINANCIALS(633)	[illegible]										
70 FINANCIALS(109)	[illegible]										
71 Banks, Retail(12)	[illegible]										
73 Insurance(17)	[illegible]										
74 Life Assurance(6)	[illegible]										
77 Other Financial(26)	[illegible]										
79 Property(48)	[illegible]										
80 INVESTMENT TRUSTS(116)	[illegible]										
89 FTSE All-Share(858)	[illegible]										
105 FTSE All-Share ex IT(742)	[illegible]										
Information Technology	[illegible]										
FTSE Fledgling	[illegible]										
FTSE Fledgling ex IT	[illegible]										
FTSE AIM	[illegible]										

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	[illegible]										
FTSE 250	[illegible]										
FTSE 350	[illegible]										
FTSE SmallCap	[illegible]										
FTSE All-Share	[illegible]										

[illegible]

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FTSE INTERNATIONAL

TRADING VOLUME

Major Stocks yesterday.

	Vol 000's	Closing price	Day's change
3i	421	549	-4
AMVESCAP	381	650	-10
ASDA Group	13,600	191½	-4½
Abbey National	2,700	1095	-37
Alliance & Leicester	995	862	+29½
Allied Domecq	1,400	620½	-1½
Assoc. Brit. Foods	690	550	-28
[illegible]			

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

PACIFIC

AFRICA

AMERICAS

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY MAY 5 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY MAY 4 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (73)	209.10	-0.9	188.84	174.13	192.72	216.94	-0.5	3.58	211.08	187.86	177.71	195.49	217.97	243.87	190.28	227.77
Austria (23)	239.16	-0.4	211.02	198.86	217.86	217.52	-0.9	1.51	237.14	211.05	199.65	219.63	219.50	237.14	181.47	181.47
Belgium (28)	334.30	-0.3	298.89	278.55	308.29	301.57	-0.9	2.40	335.66	298.74	282.60	310.88	304.29	335.66	234.33	243.64
Brazil (26)	254.47	0.6	227.38	211.91	234.53	538.13	0.7	1.84	252.91	225.09	212.93	234.24	532.61	322.44	184.94	246.06
Canada (120)	246.05	-0.4	219.86	204.89	226.77	256.51	-0.1	1.56	247.05	219.88	208.00	228.81	256.64	248.78	198.83	198.23
Denmark (34)	499.51	-2.8	446.33	415.96	460.37	459.31	-3.3	1.32	513.73	457.22	432.52	475.81	474.93	521.81	361.69	361.69
Finland (26)	445.67	-0.3	398.23	371.13	410.76	503.88	-0.7	1.78	446.97	397.80	376.31	413.98	507.46	446.97	260.94	260.94
France (79)	315.05	0.0	281.51	262.35	290.36	298.73	-0.5	2.00	315.12	280.46	265.31	291.86	295.27	315.12	213.42	219.19
Germany (58)	284.06	-1.1	253.82	236.55	261.81	261.81	-1.5	1.26	287.10	255.51	241.71	265.90	265.90	290.93	204.62	204.62
Greece (37)	298.79	2.1	266.99	248.82	275.38	657.77	1.3	1.41	292.58	260.39	246.32	270.98	649.25	298.79	290.70	–
Hong Kong, China (66)	307.71	-2.7	274.96	256.24	283.60	306.13	-2.7	6.19	316.17	281.39	266.19	292.83	314.52	580.03	262.93	478.23
Indonesia (27)	47.45	-2.3	42.40	39.52	43.74	235.80	-2.3	3.00	48.58	43.24	40.90	45.00	241.42	254.90	27.87	227.17
Ireland (16)	555.95	0.4	496.77	462.96	512.39	552.42	-0.1	1.76	553.65	492.74	466.12	512.78	553.02	560.44	333.65	333.65
Italy (54)	165.45	-0.6	147.84	137.78	152.49	218.10	-1.2	1.29	166.51	148.19	140.18	154.21	218.67	177.15	86.93	88.28
Japan (480)	96.37	1.1	86.11	80.25	88.82	80.25	0.0	0.99	95.32	84.83	80.25	88.28	80.25	141.12	88.52	118.84
Malaysia (107)	181.49	-3.8	162.17	151.14	167.27	257.58	-3.1	2.68	188.27	167.56	158.51	174.37	265.75	545.67	113.56	538.21
Mexico (28)	1682.31	0.0	1503.23	1409.93	1550.51	15589.42	0.0	1.48	1682.31	1497.24	1416.35	1558.12	15589.42	1901.98	1351.85	1352.52
Netherlands (19)	513.94	-1.5	459.23	427.98	473.67	468.45	-2.0	1.97	521.95	464.54	439.44	483.42	478.22	521.95	356.10	358.10
New Zealand (14)	71.74	0.1	64.10	59.74	66.12	69.11	0.5	4.72	71.67	63.79	60.34	66.38	68.78	98.47	71.49	85.44
Norway (38)	354.66	0.4	316.91	295.34	326.87	354.33	-0.1	1.77	353.32	314.45	297.46	327.23	354.67	374.64	281.62	296.39
Philippines (22)	98.13	2.0	87.69	81.72	90.44	192.07	1.5	1.09	96.22	85.64	81.01	89.12	189.17	173.10	57.54	164.31
Portugal (18)	295.44	-1.3	263.99	246.02	272.29	366.99	-1.9	1.03	299.39	266.45	252.06	277.28	374.18	299.39	290.70	–
Singapore (42)	207.07	-1.2	185.02	172.43	190.84	151.08	-1.0	1.96	209.53	186.48	176.40	194.06	152.64	401.75	144.01	374.58
South Africa (43)	330.23	-2.4	295.08	275.00	304.36	365.05	-2.5	2.44	338.23	301.03	284.76	313.26	374.33	365.52	227.86	364.29
Spain (31)	383.28	-1.7	342.48	319.18	353.25	436.94	-2.4	1.75	390.02	347.12	328.36	361.23	447.48	396.69	234.90	234.90
Sweden (49)	598.90	0.4	535.15	498.73	551.98	675.96	-0.4	1.73	596.30	530.70	502.03	552.28	678.83	610.82	424.76	424.76
Switzerland (30)	406.68	0.0	363.39	338.66	374.82	374.08	-0.4	1.08	406.80	362.05	342.49	376.77	375.70	406.80	275.03	275.03
Thailand (39)	26.04	0.3	23.27	21.68	24.00	38.86	0.0	8.03	25.97	23.12	21.87	24.06	38.86	75.68	13.10	75.68
United Kingdom (208)	390.58	-0.6	349.01	325.26	359.98	349.01	-0.2	2.81	393.05	349.81	330.91	364.03	349.81	401.84	286.56	286.56
USA (635)	456.07	-0.6	407.52	379.79	420.34	456.07	-0.6	1.41	458.63	408.18	386.12	424.77	458.63	462.18	330.39	338.17
Americas (810)	413.40	-0.5	369.39	344.28	381.01	349.26	-0.5	1.42	415.62	369.90	349.91	384.94	351.08	418.95	302.07	307.12
Europe (749)	359.55	-0.6	321.29	299.42	331.38	337.30	-0.8	1.99	361.78	321.98	304.59	335.07	340.13	363.50	250.33	250.33
Nordic (149)	527.20	-0.2	471.08	439.02	485.89	524.39	-0.9	1.68	528.19	470.09	444.69	489.20	529.06	533.60	369.09	369.09
Pacific Basin (870)	105.76	0.4	94.50	88.07	97.48	88.61	-0.4	1.67	105.31	93.72	88.66	97.53	89.13	158.99	95.32	137.86
Euro-Pacific (1618)	211.55	-0.3	189.03	176.17	194.97	182.41	-0.7	1.90	212.21	188.87	178.66	196.55	183.69	218.04	172.03	184.75
North America (755)	442.72	-0.6	395.59	368.67	408.89	442.68	-0.5	1.41	445.17	396.20	374.79	412.31	445.06	448.61	322.13	327.89
Europe Ex. UK (540)	332.57	-0.8	297.16	276.94	306.51	321.37	-1.1	1.57	334.61	297.80	281.71	309.91	325.07	334.61	225.17	225.17
Pacific Ex. Japan (390)	191.82	-1.8	171.40	159.74	176.79	192.77	-1.6	4.03	195.36	173.87	164.47	180.94	195.64	318.98	161.31	298.72
World Ex. US (1836)	215.71	-0.3	192.74	179.63	198.81	190.14	-0.7	1.68	216.43	192.62	182.21	200.45	191.42	220.18	175.30	188.42
World Ex. UK (2263)	283.95	-0.4	253.72	236.46	261.70	258.72	-0.7	1.59	285.16	253.79	240.08	264.11	260.43	287.02	230.63	230.68
World Ex. Japan (1991)	390.74	-0.6	349.15	325.39	360.13	382.94	-0.7	1.71	393.18	349.92	331.02	364.15	385.56	394.39	293.76	295.06
The World Index (2471)	292.96	-0.5	261.79	243.97	270.02	266.87	-0.6	1.64	294.29	261.92	247.77	272.57	268.51	298.57	235.48	235.48

Emerging markets: IFC Investable indices

4 pm close May 6

NEW YORK STOCK EXCHANGE PRICES

1998 High	Low	Stock	Div	Yld. %	P/E	Vol 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Price data supplied by Esel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.
d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
§ Dealings suspended.

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هكذا من الاصل

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	May 5	May 4	May 1	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	9147.57	9192.66	9147.07	9192.66 (4/5)	7580.42 (9/1)	9192.66 (4/5/98)	41.22 (8/7/32)
Home Bonds	104.51	104.72	104.96	105.48 (15/1)	104.51 (5/5)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	3449.04	3501.19	3485.42	3686.02 (16/4)	3194.36 (9/1)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	284.70	284.13	283.56	291.18 (2/4)	262.65 (9/1)	291.18 (2/4/98)	10.50 (8/7/32)

DJ Ind. Day's high 9251.86 (9311.98) Low 9082.37 (9134.85) (Theoretical‡) Day's high 9198.14 (9281.91) Low 9104.47 (9145.33) (Actual‡)

Standard and Poors	May 5	May 4	May 1	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1115.50	1122.07	1121.00	1130.54 (22/4)	927.69 (9/1)	1130.54 (22/4/98)	4.40 (1/6/32)
Industrials‡	1301.90	1308.36	1304.55	1311.48 (22/4)	1077.40 (9/1)	1311.48 (22/4/98)	3.52 (30/6/32)
Financial‡	134.42	135.63	138.99	140.63 (14/4)	110.65 (9/1)	140.63 (14/4/98)	7.13 (4/9/74)
Others							
NYSE Comp.	579.75	582.73	581.91	585.62 (22/4)	487.47 (9/1)	585.62 (22/4/98)	4.64 (25/4/42)
Amex Comp	745.26	748.90	749.88	758.67 (22/4)	646.41 (12/1)	753.87 (22/4/98)	524.28 (16/7/98)
NASDAQ Cmp	1864.91	1878.88	1873.44	1917.61 (22/4)	1503.22 (9/1)	1917.61 (22/4/98)	54.87 (3/10/74)
Russell 2000	481.74	485.46	484.94	491.41 (21/4)	410.89 (12/1)	491.41 (21/4/98)	123.36 (7/12/93)

RATIOS

	May 1	Apr 24	Apr 17	Year ago
Dow Jones Ind. Div. Yield	1.54	1.55	1.53	1.73
	Apr 29	Apr 22	Apr 15	Year ago
S & P Ind. Div. yield	1.35	1.29	1.31	1.75
S & P Ind. P/E ratio	30.29	31.13	30.69	22.89

US DATA

MARKET ACTIVITY

● Volume (million)	May 5	May 4	May 1
NYSE	583.830	551.700	575.180
Amex	24.745	25.609	27.233
NASDAQ	775.879	777.725	778.855

NYSE	May 5	May 4	May 1
Issues Traded	3,496	3,487	3,482
Rises	1,108	1,583	1,831
Falls	1,817	1,434	1,102
Unchanged	571	490	529
New Highs	91	150	108
New Lows	25	21	17

NYSE TRADING ACTIVITY
Volume : 583,830,000

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Compaq	9,173,800	30⅝	+⅜
Cendnt	8,743,100	24⅝	-⅜
Enron	8,725,000	52¼	+2⅛
Mattel	6,208,100	39¼	+1⅛
PhMorr	4,853,700	39⅛	+⅛
BayNtwks	4,445,500	23⅝	-⅛
AmOnLine	4,325,700	89⅛	+⅛
Pfizer	4,239,600	111¼	-⅜
Telebras	4,138,200	119½	-½
LucentTch	3,874,300	73⅛	+⅛

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Handleman	11⅛	+1⅛	+12.6
Cash Amer	18½	+1⅞	+11.3
Mirage Res	22½	+2	+8.8
US Filter	34¼	+2½	+7.9
Downs			
Furon	19⅛	-1⅞	-8.7
Novacare	12⅞	-⅞	-6.4
DeneyFIo	33⅛	-1⅞	-5.5
Aerlix	13¾	-¾	-5.3

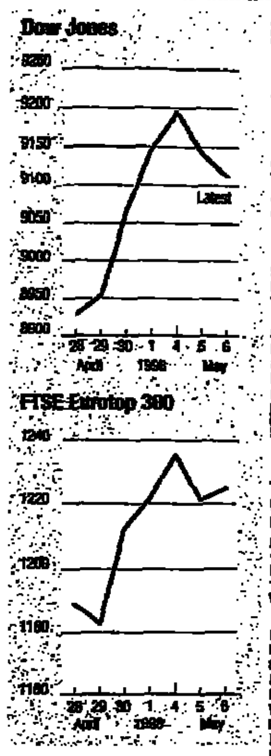
NASDAQ TRADING ACTIVITY
Volume :775,879,000

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Netscp	15,757,700	30⅝	+⅛
Micsft	12,692,000	87⅝	-⅛
WrldCm	11,954,200	43	-⅛
DellCmp	11,482,900	87⅞	-⅛
Oracle	10,964,500	25⅞	-⅛
Intel	8,884,000	81⅝	-⅜
CiscoSys	7,877,000	73¾	-1⅛
Cmpwre(C)	6,457,200	45¼	-2⅝
CorpEx	5,520,000	10⅝	+⅛
Vivus	5,396,600	11¼	+2

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
CopperLns	14¾	+3⅛	+27.2
Vivus	11¼	+2	+21.6
ClosureMed	27⅞	+3⅜	+13.8
Clrrsd.	11⅛	+1⅛	+10.5
Downs			
IntMetcom	15¼	-5⅛	-25.6
BancCo	42¾	-5⅝	-11.7
BT FinCp	27¾	-3	-9.8
QAD	11⅛	-1⅛	-9.4



JAPAN

	May 6	May 5	May 4	1998 High	1998 Low	Since compilation High	Since compilation Low
Nikkei 225	15243.84	(c)	(c)	17264.34	14664.44	38915.9	85.25

Day's high: 15538.86. Day's low: 15129.07.

TOKYO TRADING ACTIVITY
Volume : 346,860,000

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Np Steel Cp	11,598,000	211	-3
Sakura Bk	8,388,000	414	-26
Nissan Mtr	5,573,000	407	-7
Toshiba Cp	4,885,000	613	
Mitsbl Hvy	4,606,000	491	+8
Sumo Mit Ind	4,567,000	211	-10
Fujitsu	4,057,000	1536	-19
Asahi Cp	4,028,000	79	-8
Hitachi	3,941,000	941	+10
Optec Dalich	3,852,000	58	-50

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Daiichi Cem	180	+14	+8.4
Daiichi Hd	260	+20	+8.3
Sumitaji Elc	250	+19	+8.2
Downs			
Goldwin	120	-20	-14.3
Yahagi Cp	215	-30	-12.2
Tou Cp	190	-25	-11.6
Seiyu	282	-33	-10.5
Tatsuta Ele	251	-29	-10.4

FRANCE

	May 6	May 5	May 4	1998 High	1998 Low	Since compilation High	Since compilation Low
CAC 40	3947.45	3944.91	3974.25	3986.75	2882.54	3986.75	984.61

Day's high: 3975.72. Day's low: 3929.45.

PARIS TRADING ACTIVITY
Volume : 415,194,488

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Usinor	3,007,369	98.15	+1.85
Renault	1,177,825	395.5	+18.5
Rh.Poulenc A	1,149,977	310	+4
Modliner	1,046,089	191.5	+8.6
Alcatel Alst	979,338	1169	-6
Axa-UAP	915,161	738	+2
Fr.Telecom	747,082	321	-3.1
Peugeot	724,802	1112	+47
BNP	658,307	525	
Michelin B	637,678	373	-6.8

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Simil	1100	+150	+15.8
CS (C.Sign)	480	+63.6	+15.3
Fromd & Rad	166	+21	+14.5
Alpha Mos	126.5	+14.5	+12.9
Downs			
Finacor	32.7	-3.45	-9.5
CAIC	361	-38	-9.5
ECIA	1787	-183	-9.3
Optical Sm	144	-14	-8.9

GERMANY

	May 6	May 5	May 4	1998 High	1998 Low	Since compilation High	Since compilation Low
DAX	5229.80	5232.03	5314.66	5442.80	4087.28	6442	931.18

Day's high: 5230.92. Day's low: 5187.15.

FRANKFURT TRADING ACTIVITY
Volume : 13,813,940

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Daimlr-Benz	1,119,046	192.9	+13.2
Deut.Tlkm	783,680	45.85	+0.05
Siemens	693,777	106.85	+1.85
Deut.Bank	518,231	147.95	+3.95
Bayer	469,606	75.8	-1.1
Veba	432,749	123.3	-0.8
Hoechst	427,858	69.9	-2.4
BASF	374,352	78.3	-0.8
Commzbank	364,797	69.6	-0.7
Lfthnsa (Nt)	321,907	42.35	-0.05

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
WMF Wt Pf	285	+25	+9.6
Dis Deutscher	120	+8.9	+8.0
Daimler-Bnz	192.9	+13.2	+7.3
Loesch	52.1	+2.6	+5.3
Downs			
K&M Mobel	17.6	-1.9	-9.7
Mrlle Klinks	30.5	-2.8	-8.4
Einhell NV Pf	25	-2	-7.4
Moenus Text	12.85	-0.65	-4.8

UK

	May 6	May 5	May 4	1998 High	1998 Low	Since compilation High	Since compilation Low
FTSE 100	5992.4	5986.5	(c)	6105.80	5068.80	6105.8	986.9

Day's high: 6000.0. Day's low: 5947.4.

LONDON TRADING ACTIVITY
Volume : 658,800,000

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Burml Pet	24,738,530	21¼	
BP	15,200,190	72	+3½
Asda Grp	13,601,320	192½	-4¼
Signet Grp	12,749,040	43¾	+¾
Shell T&T	10,167,310	449	-3½
BTR	9,997,545	204½	+4¾
Halifax	9,962,988	786	+4
Brit.Aerospace	9,828,635	532½	+29½
Brit. Steel	9,782,932	169½	+2
Pilkington	9,763,644	135½	+4½

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Utility Cble	4¾	+1	+26.7
SWP Grp	2½	+½	+25
Scholl	448½	+68½	+18.0
Joyes Grp	187½	+25	+15.4
Downs			
VCI	78½	-13½	-15
Pittard	38½	-6½	-14.4
Highland Lw	50½	-8	-13.7
Carbo	26	-3½	-11.8

INDEX FUTURES

S&P 500	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
Jun	1119.80	1122.50	+2.50	1123.90	1115.20	107,070	334,280
Sep	-	1132.10	-	-	1135.30	916	12,482
Nikkei 225	**Open**	**Sett price**	**Change**	**High**	**Low**	**Est. vol.**	**Open Int.**
Jun	15420.0	15170.0	-360.0	15420.0	15080.0	29,476	195,508
Sep	15290.0	15180.0	-350.0	15300.0	15100.0	16	12,819

Open interest figures for previous day.

CAC-40 (200 x Index)	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
May	3930.0	3930.0	-4.0	3938.0	3922.0	330	38,894
Jun	3905.0	3910.5	-4.0	3906.0	3905.0	596	19,877
DAX							
Jun	5225.0	5250.0	+29.0	5298.0	5187.0	27,658	125,727
Sep	5272.0	5295.0	+14.5	5337.0	5255.0	86	17,378

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
May	754.00	764.50	+9.50	766.00	753.00	23,513	146,753
Jun	762.50	767.00	+8.50	768.50	761.75	130	17,644
SOFFEX							
May	7579.0	7593.0	+28.0	7645.0	7520.0	5,378	23,753
Jun	7541.0	7575.5	+12.0	7589.0	7541.0	117	599

WORLD MARKETS AT A GLANCE

Country	Index	May 6	May 5	May 4	1998 High	1998 Low	Yield	P/E
Argentina	General	23368.36	23297.90	23429.03	23485.47 23/3	18237.48 2/1	2.8	20.2
Australia	All Ordinaries	2788.0	2803.5	2812.3	2881.49 16/4	2542.49 12/1	3.3	20.3
	All Mining	678.8	689.3	691.3	713.18 23/4	552.26 13/1		
Cautious trading ahead of results from NAB and News Corp, Reserve Bank policy statement and April employment data.								
Austria	Credit Aktien	(u)	561.52	564.74	581.52 5/5	437.44 13/1	1.8	15.6
	ATX Index	1554.16	1553.10	1567.04	1586.96 23/4	1245.89 13/1		
Market little changed, unable to shake off the effect of the overnight rout on Asian exchanges.								
Belgium	BEL20	3075.69	3097.82	3134.55	3144.24 22/4	2357.78 10/1	1.9	20.1
Heavy trade seen in insurer Royale Belge as index funds began divesting the stock ahead of its expected delisting.								
Brazil	Bovespa	11577.0	11555.0	11507.0	12298.08 15/4	9118.08 9/1	na	na
Market marginally higher on steady demand for blue chips.								
Canada	TSE 100	467.36	469.82	470.64	475.28 15/4	389.03 12/1	1.5	23.5
	Metals Mints	4185.80	4153.09	4190.59	4399.01 10/3	3442.35 12/1		
	Composite	7689.20	7720.10	7737.30	7822.38 22/4	6239.96 12/1		
	Portfolio§§	3847.90	3874.27†	3876.41	3947.87 15/4	3234.41 12/1		
Investors, fretting about higher interest rates, drove banks lower.								
Chile	IGPA Gen	4563.86	4559.18	4579.07	4861.85 17/3	4343.47 27/1	2.8	15.1
China	Shanghai B	49.75	50.65	51.52	58.58 10/2	40.89 12/1	0.8	42.0
	Shenzhen B	84.05	86.19	86.66	98.97 10/2	77.98 12/1		
Disappointing results season and weak Hong Kong markets continued to overshadow hard currency B markets.								
Colombia	IBB	1220.09	(c)	1233.04	1431.46 7/1	1130.31 19/3	na	na
Czech Republic	PX 50	490.7	493.1	499.0	517.38 23/3	452.40 4/2	na	na
Weak demand sent market lower as investors wound down to forthcoming three day holiday weekend.								
Denmark	CopenhagenSE	743.31	736.80	753.45	778.84 7/4	667.86 12/1	1.3	22.6
Shares rallied on news that the government was planning to use legislation to end national strike.								
Egypt	Cairo SE Gen	387.54	386.31	386.12	393.19 21/4	345.48 2/2	na	na
Busy banking shares boosted prices while trade in other sectors helped to flesh out the day's turnover.								
Finland	HEX General	4974.19	4956.80	4983.36	4983.36 4/5	3220.43 12/1	1.9	18.1
Hunt for growth stocks boosted Hartwall and Tieto, which is due to report first quarter earnings today.								
France	SBF 250	2558.42	2553.07	2564.82	2594.82 4/5	1873.10 12/1	2.3	18.6
	CAC 40	3947.45	3944.91	3974.25	3986.75 6/4	2882.54 12/1		
Powerful performance in the motor sector and a share buyback story at Saint Gobain and Suez Lyonnaise helped market ahead.								
Germany	FAZ Aktien	1679.34	1683.47	1712.82	1744.70 14/4	1334.15 12/1	1.4	22.4
	Commerzbank	4985.90	5000.90	5081.10	5185.70 20/4	3926.20 12/1		
	DAX‡	5229.80	5232.03	5314.66	5442.08 20/4	4087.28 12/1		
Modest gains seen after a day dominated by the latest news from the motor sector.								
Greece	Athens SE	2582.62	2634.54	2602.82	2634.54 5/5	1380.33 29/1	1.6	26.6
	FTSE/ASE 20	1585.58	1601.83	1574.21	1601.83 5/5	755.18 29/1		
Bank issues ran out of early momentum as profit-taking picked up ahead of today's expected decision on Ionian Bank sale.								
Hong Kong	Hang Seng	10109.14	10153.66	10438.42	11819.83 25/3	8121.06 12/1	4.0	10.3
	HSCC Red Chip	1301.40	1327.24	1408.55	1775.08 27/2	964.50 12/1		
Continuing worries over the local economy and regional uncertainties, including Indonesia's riots, pulled shares back.								
Hungary	Bux	8562.29	8609.96	8740.12	9016.36 23/4	7288.79 12/1	na	na
Uncertainty over parliamentary elections which begin on Sunday sent shares lower.								
India	BSE Sens.	4069.79	4147.29	4135.81	4280.96 21/4	3209.55 28/1		
	Crisil 500	770.28	786.76	783.23	815.82 21/4	594.38 29/1	na	na
Blue chips closed with losses as speculators cut positions to book profits after recent rises.								
Indonesia	Jakarta Comp.	414.63	436.18	445.99	554.18 2/2	342.97 9/1	2.4	14.1
Anti-government protests following recent fuel price increases chased investors away.								
Ireland	ISEQ Overall	5398.87	5399.20	5400.05	5471.81 21/4	4064.76 2/1	1.7	19.9
Shares slipped in light trade as investors booked profits and activity in foreign markets failed to provide inspiration.								
Israel	Tel Aviv 100	315.11	317.00	317.99	317.99 4/5	283.12 11/2	na	na
Investors cautious after overnight weakness on Wall Street and sharp declines in Asian markets.								
Italy	BCI Comit 30	342.86	343.79	348.16	380.93 6/4	254.84 2/1	1.3	30.5
	Banca Com Ital	(u)	1489.76	1494.91	1654.36 7/4	1072.35 2/1		
	Mibtel General	23736.0	23828.0	(u)	26377.00 6/4	17206.00 2/1		
Fiat soared and Rome based soccer club Lazio closed at sharp premium as its shares made bourse debut.								
Japan	Nikkei 225	15243.84	(c)	(c)	17264.34 2/3	14664.44 12/1	0.9	41.4
	Nikkei 300	237.50	(c)	(c)	257.43 10/2	224.86 12/1		
	Topix	1200.66	(c)	(c)	1300.30 10/2	1120.61 12/1		
	2nd Section	1311.22	(c)	(c)	1401.27 12/2	1173.76 14/1		
Comments by LDP secretary general Koichi Kato repeating his opposition to permanent tax cuts added to negative sentiment.								
Jordan	Amman SE	169.03	167.34	167.66	172.33 3/3	164.54 30/1	na	na
Local floor trades propped up activity in a generally thin market.								
Malaysia	KLSE Comp.	584.62	608.40	627.43	745.36 27/2	477.57 12/1	2.7	13.4
Indonesian riots compounded the prevailing bearish mood in the Malaysian stock market.								
Mexico	IPC	4981.93	(c)	5041.38	5284.00 2/1	4477.88 29/1	1.2	14.3
Market reopened after Wednesday's national holiday and walked straight into minor currency storm.								
Morocco	CASA	(u)	787.89	784.71	787.89 5/5	666.57 21/1	na	na
Robert Fleming recommended overweight position in market enjoying strong fundamentals, which should continue bull run								
Netherlands	CBS TRRetGen	1342.5	1353.7	1378.8	1378.80 4/5	1045.28 12/1	1.7	25.3
	CBS All Shr	768.5	772.9	787.2	788.28 6/4	599.20 12/1		
PolyGram was the day's hot topic, powering ahead by 12.4 per cent after a swathe of takeover rumours swept market.								
New Zealand	Cap. 40	2230.61	2248.09	2237.69	2359.02 20/3	2187.81 28/1	4.1	18.3
Lower in response to weak Asian markets. Fishing company Sanford jumped after reporting improved interim results.								
Nigeria	SE All-Share	6072.33	6098.90	6111.87	6504.87 11/2	2236.40 12/1	na	na
Norway	Oslo SE Ind	2389.47	2370.23	2370.68	2378.88 4/5	1998.91 12/1	1.5	18.5
Financials powered higher after Den norske Bank ousted group MD and Sweden's S-E-Banken talked about restructuring.								
Pakistan	Karachi SE	(u)	1543.75	1533.08	1746.31 2/1	1502.20 12/1	na	na
Peru	Lima Gen	1876.45	1875.99	1903.91	1903.91 4/5	1592.80 25/2	na	na
Philippines	Manila Comp	2211.13	2267.18	2208.12	2311.42 25/3	1598.00 9/1	1.2	15.5
Regional worries and uncertainties ahead of the May 11 election prompted pullback after five days of gains.								
Poland	WIG	17882.5	18035.1	17917.7	18592.70 11/3	13228.80 12/1	1.2	14.4
Profit-taking emerged after advances of previous four sessions.								
Portugal	BVL 30	5801.43	5847.97	5962.97	6176.89 22/4	3979.27 2/1	1.4	43.4
	PSI 20	13374.32	13495.98	13772.21	14292.89 22/4	9031.84 2/1		
Attempted rally petered out at mid-afternoon, and outlook said to be uncertain.								
Russia	RTS	310.61	315.21	(c)	411.81 5/1	286.93 29/1	na	na
Shares drifted lower in apathetic trade.								
Singapore	SES All-S'pore	374.90	378.25	382.57	437.98 19/3	324.92 12/1	2.3	15.3
	Straits Times	1448.40	1469.27	1476.40	1698.76 19/3	1073.47 12/1		
Property companies fell after Singapore's biggest land sale in recent years failed to attract any bids.								
Slovakia	SAX	129.88	132.26	132.08	182.48 5/1	129.88 6/5	na	na
Oil and gas storage group Nafta sharp lower on privatisation worries as market fell to record low								
South Africa	JSE Gold	1019.4	(u)	1032.1	1101.50 24/4	672.80 18/3	2.4	15.2
	JSE Indl.	9755.1	9761.2	9940.2	9942.70 20/4	6715.10 12/1		
Market picked up from lows as investors saw value after Tuesday's heavy losses.								
South Korea	KoreaCmpEx**	376.23	(c)	391.80	574.35 2/3	376.23 6/5	1.3	17.9
Knocked by fears of labour unrest after trade union threatened to hold strikes unless government guaranteed job security.								
Spain	Madrid SE	870.58	873.30	892.28	938.83 6/4	645.14 13/1	1.7	28.2
Telefonica sharply lower ahead of close of bumper rights issue today.								
Sri Lanka	CSE All Share	777.80	788.00	789.70	789.70 4/5	655.90 26/1	na	na
Plantation stocks continued to hog the actives lists.								
Sweden	AffaersvardnGen	3702.2	3657.5	3685.9	3760.00 15/4	2853.10 12/1	1.8	22.2
Strong gains in Ericsson and Volvo helped broad market higher.								
Switzerland	SMI Index	7610.8	7596.2	7640.8	7827.70 6/4	6062.10 12/1	1.0	30.5
	SPI General	4779.91	4769.75	4789.25	4847.72 6/4	3781.36 13/1	na	na
Strength in financial sector helped market to erase early losses and close with modest advance.								
Taiwan	WeightedPr.**	8325.64	8330.15	8360.60	9277.09 2/3	7375.14 12/1	1.2	22.5
Bounced back from day's low as aggressive buying drove electronics sector up 1.2 per cent.								
Thailand	Bangkok SET	393.36	(c)	400.71	558.92 3/2	338.17 12/1	2.7	25.4
Regional weakness and Standard & Poor's downgrading of eight Thai financial institutions shifted prices lower.								
Turkey	IMKB Nat. 100	4217.65	4258.77	4265.49	4365.77 22/4	2777.08 10/2	2.1	20.9
Profit-taking and a lack of inspiration drove shares lower.								
Venezuela	IBC	6075.80	6022.87	5998.24	7858.92 23/3	5975.13 4/5	na	na
Market rallied in spite of the broad decline for international oil prices.								
Zimbabwe	ZSE Industrial	(u)	7409.18	(c)	8795.71 31/3	7409.18 5/5	na	na
Industrials eased on foreign and local selling which brokers said was likely to continue.								
WORLD	FT/S&P World(S)	(u)	292.98	294.29	296.57 15/4	243.58 9/1	na	na
	MS Capital Intl$	1081.7*	1086.3	1091.5	1094.90 15/4	888.50 12/1	na	na
CROSS-BORDER	DJ Stoxx 50	3285.73	3279.45	3320.83	3398.00 6/4	2574.51 12/1		
	DJ Euro Stx 50	3262.55	3261.38	3309.86	3345.86 6/4	2469.81 12/1		
	FTSE E300	1224.81	1220.48	1236.28	1263.93 6/4	971.93 12/1		
	FTSE E100	2813.31	2802.43	2830.90	2908.86 6/4	2226.40 12/1	na	na
	HSBC JC Drgn	(u)	237.74	242.99	273.91 26/3	189.25 12/1	na	na
	ING Bargs Emrg	154.29	158.03	157.07	160.68 22/4	125.18 12/1	na	na

** Sat May 2: Taiwan Weighted Price Ind. Korea Comp Ex 406.53. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ XETRA-DAX after-hours index: May 6 5264.82 +38.42. † Correction. * Calculated at 15.00 GMT. ⊕ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). Subject to official recalculation. Yields and P/E ratios are based on Datastream Total Market indices. Midsession.

THE NASDAQ STOCK MARKET

4 pm close May 6

Stock	Div.	P/E	Vol 100s	High	Low	Last	Chng
[illegible]							

THE NASDAQ STOCK MARKET

Stock	Div.	P/E	Vol 100s	High	Low	Last	Chng
[illegible]							

AMEX PRICES

4 pm close May 6

Stock	Div.	P/E	Vol 100s	High	Low	Close	Chng
[illegible]							

EASDAQ

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Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$5.375	+0.125	69960	7.125	2.25
Algol	ITL33500	+2250	9400	33500	12450
Artwork Systems	US$19.125	-0.125	44063	21.625	5.875
Chemunex	FFr15.5		0	16.5	9
City Bird Holding	US$8.8125	-0.0625	15380	10.3125	6.8125
Dobonair Holdings	GBP2.8	-0.05	29970	7.15	1.7
Dr Solomon's	US$31.875	+1.875	17891	46.25	20.375
EDAP TMS	US$5.75	+0.0625	0	8.125	5.0625
ESAT Telecom	US$36.625	+3.5	7885	36.625	13.25
Espace Prod. Int.	FFr95.88		500	117	88.83
Esprit Telecom	US$18.5		350	19.25	4.875
Global TeleSystems	US$46.25	-1	440	49.125	24.5
Grange Telecom	US$23.25	-0.75	18730	27.25	13.5
Gruppo Formula	ITL58250	-1250	6024	65650	14250
Innogenetics	US$68-2.75	78345	76.5	9.875	
Integr. Surg. Syst	DEM9.9	+0.6	0	12.7	6.8
Lernout & Hauspie	US$58.25	+0.125	84891	103.5	25
Memis	US$17.625	+0.3125	206560	18	7.1875
Mercer Int'l	US$9.625		0	12.875	8
NTL	US$41.75	+2.25	7000	45.5	20.5
Option Int'l	US$54.75	-2.5	20228	68.25	10.375
PixTech	US$6.75	-0.25	9200	7.625	2.125
Royal Olympic	US$18.125	+0.125	0	18.5	13.625
Schoeller-Bleckmann	Sch1620	+12	1000	1692	800
Topcall Int'l	Sch14300	+175	868	14450	3065
Turbodyne Technol.	US$9.05	-0.08	34317	11.93	2.1

Prices for 6/5/98. Please note that mid prices are now used to calculate highs and lows. Information about EASDAQ can be found on the Web site at: http://www.easdaq.be EASDAQ offices are located in Brussels (Tel. 32-2 / 227 65 20) and in London (Tel. 44-171 / 489 8990). Annual/interim reports can be obtained for companies with a ♣ indicated by this team. For further details please see London Share Service pages. For further details please telephone Annual Reports Service +44 181 770 0770

STOCK MARKETS

Strikes and unrest slow Asian recovery

WORLD OVERVIEW

Sharp falls in Asian markets yesterday seemed to have wiped out any remaining hopes for a V-shaped recovery in the region, *writes Emiko Terazono.*

Jakarta, stricken by student protests, fell nearly 5 per cent, dragging down Kuala Lumpur with it, while Seoul, plagued by the possibility of labour strikes, lost 3.9 per cent, hitting a new low for the year as foreign investors bailed out. Tokyo was hit by worries over Japanese corporate exposure to Indonesia.

Indonesia is 25 per cent below its high for the year, seen in February, while Malaysian shares are 22 per cent below their 1998 peaks. Do the recent declines in Asian markets mean value, and should investors be buying in the hope of long-term growth?

From an earnings perspective, Asian growth may be depressed for far longer than the consensus currently believes, says BT Alex Brown. The broker said: "[Asian] markets may look cheap, but for a reason."

Consumption is expected to remain weak owing to the negative wealth effect of the fall in share prices, while the rise in real interest rates is proving to be a high hurdle for investment.

The IMF restricts governments from spending themselves out of the current economic turmoil, while export growth, which was hoped to be the engine of growth, has not come. At the same time, banks have been unable to lend to manufacturers and devaluation has hurt exporters who need to import materials.

Europe yesterday was dominated by news that Daimler-Benz and Chrysler were in tie-up talks. Merger hopes offset worries over a possible rise in German interest rates and the weakening dollar in some markets.

Frankfurt edged higher thanks to an 8.4 per cent rise for Daimler, while other carmakers, including Volkswagen and BMW, rallied. Milan softened, but Fiat gained more than 7 per cent.

The rally in car stocks extended to Wall Street. Analysts are increasingly cautious over US share prices. "Stocks have risen faster than earnings since the start of 1995 – things don't always work that way," points out J.P. Morgan. In 1995, after a rally in bonds and three years of strong earnings growth, shares were very cheap. The environment has changed since then.

For stocks to gain substantial ground in 1998, bond yields need to fall dramatically and corporate earnings will need to grow sharply.

"We don't have a lot of confidence in either outcome," Morgan says.

Wall St stalls in spite of merger talk

AMERICAS

Merger speculation among motor stocks did little to rouse investors and Wall Street ran into a mild early sell-off, *writes John Labate in New York.*

News that Daimler-Benz and Chrysler were in merger talks sent both companies' stocks sharply higher. Chrysler rose 15 per cent or \$6⅞ to \$47⅞, while Daimler, which trades in ADR form, rose \$6$\frac{13}{16}$ to \$108⅞. Other motor stocks were also higher. General Motors added \$1 at \$69$\frac{7}{16}$.

But the broader market remained weak. The Standard & Poor's 500 was off 6.23 by early afternoon at 1,109.27, while the Dow Jones Industrial Average shed 42.35 to 9,105.22. A mixed technology sector put pressure on the Nasdaq composite index, which eased 3.76 to 1,861.15.

"We've been hearing of some reallocation of some funds," said Warren Epstein, director of trading at Richard Rosenblatt & Co. in New York. "People are looking for a direction."

The Treasury market took a different direction. Prices rose on the morning announcement of a major change in supply due later in the year. By early afternoon the benchmark long bond had gained $\frac{1}{32}$ to 103½, yielding 5.944 per cent.

CS First Boston lowered its rating on Northwest Airlines and the shares fell \$2$\frac{11}{16}$ or more than 5 per cent to \$49⅞. Cendant shares lost \$⅝ to \$23$\frac{13}{16}$ after Lehman Brothers scaled back its earnings per share estimate.

Tool company SPX climbed \$2$\frac{1}{16}$ to \$73$\frac{13}{16}$ after it said it had withdrawn its offer to acquire auto parts producer Echlin. Echlin's shares fell \$2¼ to \$48⅝.

In the computer sector Cisco Systems rose \$1¼ to \$74⅞. Microsoft was down \$1⅞ to \$86⅝ on rumours that it had been in talks with the US Justice Department late on Tuesday. Compaq Computer rose \$1$\frac{1}{16}$ to \$31⅝ on news of job cuts.

TORONTO continued to lose ground. Investors, fretting about higher interest rates, drove the banks lower and golds sagged in line with the bullion price. The 300 composite index was off 37.92 at 7,682.20 by noon.

Drinks and entertainment giant Seagram also weighed heavily on sentiment, turning in disappointing third-quarter results and giving C\$1.25 to C\$59.80.

Royal Bank of Canada shed 85 cents to C\$83.95 as rate rise worries persisted. Bank of Nova Scotia came off 55 cents to C\$38.55 and Canadian Imperial 25 cents to C\$49.70.

Bullion had a dull morning and Barrick gave up 55 cents at C\$31.15 and Placer Dome 45 cents at C\$20.40.

Mexico opens to storm

MEXICO CITY reopened after Wednesday's national holiday and walked straight into a minor currency storm. "Talk of a rate rise is back on the agenda," said one broker as the peso lost ground against the dollar in early trading. Sentiment in the equity market weakened and at midsession the IPC index was off 61.42 or 1.2 per cent at 4,979.96.

SAO PAULO was steady at midsession with the Bovespa index showing a modest improvement of 24 to 11,579. There was said to be steady buying of blue chips. Telebrás gained 0.8 per cent to R\$38.10.

CARACAS rallied in spite of the broad decline for international oil prices. At midsession, the IBC index was 37.43 better at 6,074.21.

Financials fall as talks fail

SOUTH AFRICA

Shares in Johannesburg continued to move lower with most of the day's action concentrated among financials. The all share index gave up 3.1 at 8,120.2.

Financials retreated 40.0 to 13,688.5 as investors registered their disappointment at the breakdown of merger talks between Liberty Life and Standard Bank.

Industrials shed 6.1 to 9,755.1. Golds came off 12.7 or 1.2 per cent to 1,019.4 in line with weaker bullion.

Car stocks accelerate away

EUROPE

News that Germany's Daimler-Benz was in merger talks with Chrysler of the US sent European carmakers racing ahead.

Daimler was the star performer in Frankfurt, picking up DM14.90 to DM193.40, off a high of DM197.70. Merck Finck, which upgraded the stock, said a deal would allow Daimler to hedge the group's dollar dependence, which now represented 50 per cent of its business.

Conversely, BfG Bank in Frankfurt said the day's rise in the share price was exaggerated and recommended that investors take profits.

BMW was DM39 higher at DM2,060 and Volkswagen finished DM6 ahead at DM1,441. The two are still locked in their battle for Rolls-Royce Motor Cars in the UK.

French motor stocks shared in the general excitement with Renault and Peugeot surging to all-time highs amid renewed talk that industry consolidation could lead to a merger of the two companies.

Renault, which yesterday announced a bus and truck deal with Italy's Fiat, rose FFr18.50 or 6.4 per cent to FFr306.5 while Peugeot gained FFr47.00 or 4.4 per cent to FFr1,112. Their combined turnover topped FFr1.1bn.

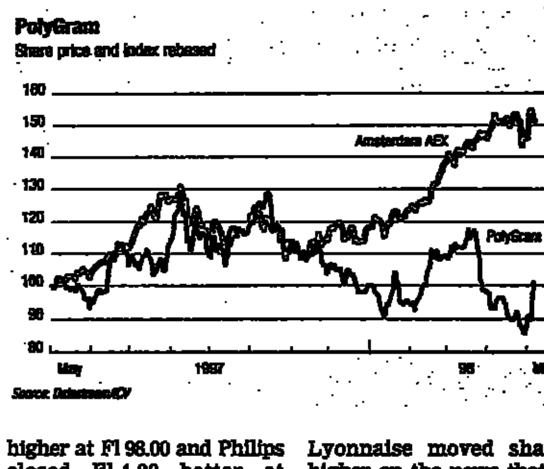
The Daimler-Chrysler news brought renewed speculation in Milan that Fiat might be looking for a partner in the car sector. Against the trend of a broadly lower market, the shares picked up L460 to L7,739. In Stockholm, Volvo climbed SKr13 to SKr244 and Scania rose SKr3 to SKr188.

AMSTERDAM continued to track the dollar lower, with heavy selling of internationals taking the AEX index down 10.68 to 1,163.69. Royal Dutch fell Fl 1.90 to Fl 113.80 and Unilever Fl 3.80 to Fl 151.70. Heineken tumbled Fl 2.50 or 3.1 per cent to Fl 78.50.

PolyGram was the day's hot topic, powering ahead by 12.4 per cent after a swathe of takeover rumours swept through the market. These were sparked by the announcement that parent company Philips planned a "strategic assessment" of its 75 per cent stake in the music and entertainment group.

The speculation touched just about every global leisure group, but the story that caught the eye linked PolyGram with EMI, the UK group currently in "talks" with a third party.

PolyGram ended Fl 10.80 higher at Fl 98.00 and Philips closed Fl 4.20 better at Fl 193.60.



Hoogovens, which has lagged the Dutch market by more than 40 per cent over the past six months, lost 30 cents to Fl 94.20 after an upgrade to "outperform" by Salomon Smith Barney.

Baan fell Fl 2.60 to Fl 84.70 for a decline of more than 10 per cent in two days following the software group's disappointing results.

FRANKFURT closed with modest gains after a day dominated by the latest news from the motor sector. By the close of electronic trade, the Xetra Dax index was 38.42 higher at 5,264.62.

Deutsche Bank was marked DM5.65 higher at DM149.20 as the group declined to comment on market speculation that it was considering the disposal of its 22 per cent stake in Daimler-Benz.

Mobilcom, the telecommunications group, rebounded DM110 to DM1,400 after it restated its right to use Deutsche Telekom telephone lines at low fees.

The shares fell more than 5 per cent on Tuesday after Telekom said that Mobilcom and other competitors should pay higher prices for access to its nationwide telephone network. Telekom eased 75pfg to DM45.35.

Altana was DM4.50 higher at DM143 after the chemical and pharmaceuticals company reported that first-quarter sales and earnings grew more strongly than expected.

Steel giant Fried Krupp firmed DM6 to DM337 after it announced a rise in first-quarter sales and profit, and the chief executive said the group was looking forward to a pleasing performance in the current fiscal year.

PARIS edged higher, helped a powerful performance within the motor sector and a share buyback story at Saint Gobain and Suez Lyonnaise. The CAC 40 index ended up 2.54 at 3,947.45.

Saint Gobain and Suez-Lyonnaise moved sharply higher on the news that the two were contemplating an effective share buy-back. They plan to buy the stakes each holds in the other. Saint Gobain, which was also underpinned by strong first-quarter sales figures, rose FFr24.00 to FFr1,060. Suez put on FFr29.00 at FFr1,048.

ZURICH reversed early losses and edged higher at the close, although continuing fears of a rise in German interest rates and a weaker dollar kept the upturn in the SMI index to a modest 14.8 at 7,611.0.

Much of the strength was derived from financials, which benefited from derivatives-linked demand.

UBS put on SFr37 to SFr2,582 while SBC, its merger partner, moved SFr9 higher to SFr558. But Bank Baer dropped SFr130 to SFr4,070 and insurer Swiss Life was SFr22 lower at SFr1,293.

A SFr37 rise in ABB to SFr2,575 and a SFr29 advance in Alusuisse to SFr1,959 were again attributed to demand by BZ Bank. Rieter rose SFr8 to SFr965 on a recommendation that drew the market's attention to its positive fundamentals.

COPENHAGEN rallied on the news that the government was planning to use legislation to end Denmark's national strike. The krone stayed weak, but bonds recovered and equities kept in step. The KFX index closed up 3.19 at 234.75. Carlsberg added DKr20.00 at DKr435.

MILAN wiped out early afternoon gains to close easier, although shares in the Rome soccer club Lazio made a bravura debut on the bourse. The shares were quoted at L6,700 in the pre-market and trade was temporarily halted at the start of the day because of excessive gains.

By the close, Lazio was quoted at L6,500, a sharp premium to the L5,900 offer price.

The real-time Mibtel index eased 90 to 23,736.

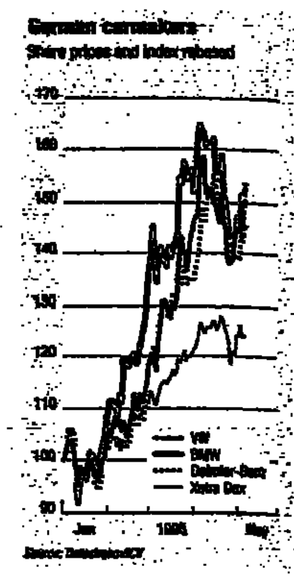
Written and edited by Michael Morgan, Jeffrey Brown, Emiko Terazono and Paul Gregan.

MARKET FOCUS

Motor groups on their marques

Takeover fever is rife in the German car industry. Motor stocks rocketed yesterday after the surprise news that Daimler-Benz is in merger talks with Chrysler of the US. Speculators are wondering which company could be the next takeover target.

But the latest move towards consolidation comes as an even more dramatic takeover involving two of Germany's biggest carmakers is unfolding. BMW and Volkswagen are locked in a battle royal over Rolls-Royce Motor Cars of the UK.



Both manufacturers declare they want to acquire the Rolls-Royce and Bentley brands owned by Vickers, the UK industrial group, to provide a credible way to enter the super-luxury market. Both have said they would pour in new investment, significantly raise output of the luxury marques and boost employment at the British manufacturing sites.

So far, BMW is ahead in the tussle, having agreed terms with Vickers management. But VW is placing an increased offer on the table in the hope of swaying Vickers shareholders.

Analysts remain divided on which company would benefit most from the acquisition. One school of thought favours BMW, since its existing products are closer on the motor industry's social scale to Rolls-Royce than VW's mass-market cars.

But others argue it is precisely because of the gap between Rolls-Royce and VW's existing brands that VW has the most to gain.

While this debate remains unresolved, the effect of the ongoing battle on the companies' share prices has been enlightening. Whenever BMW has appeared to edge ahead in the contest, its shares have tended to perform well, a sign of investor confidence in the company's ability to profit from the takeover. But when VW has moved ahead, its shares have often sagged – signalling shareholder disapproval.

So far this year BMW's shares have outperformed, just, those of VW. BMW shares have risen from DM1,340 at the start of January to DM2,060 at yesterday's close, a rise of 53 per cent. VW's share price is up from DM987 to DM1,441, a rise of 46 per cent.

However, VW's price has been feeling the after-effects of its badly managed share offering announced last autumn. That had to be scaled back after shareholders protested that they had not been kept properly informed, prompting a sharp drop in VW's shares.

In the longer-run, VW's shares have outstripped those of BMW – increasing 130 per cent since the beginning of last year, compared with BMW's 95 per cent rise.

What both companies' share price performance shows is that both are doing very well at present. German car companies in general are benefiting from the weakness of the D-Mark, which is boosting exports.

Graham Bowley

Tokyo dips on credit downgrade

ASIA PACIFIC

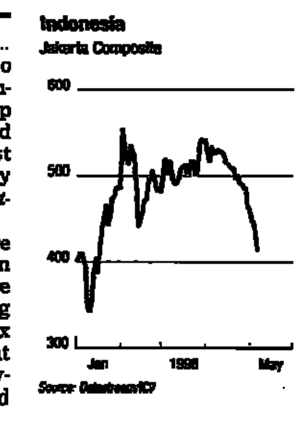
Shares in **TOKYO** fell to their lowest levels since January as traders caught up with domestic news and developments in south-east Asia after their four-day weekend, *writes Bethan Hutton in Tokyo.*

The Nikkei 225 Average fell more than 3 per cent in the morning session, before some late bargain-hunting lifted the market. The index ended 357.26 or 2.3 per cent lower at 15,243.84 after moving between 15,536.96 and 15,129.07.

The Topix index of all first-section shares fell 17.04 to 1,200.66, while the capital-weighted Nikkei 300 dropped 3.54 to 237.50.

Some of the heaviest selling was of the smaller listed construction companies, after a local credit rating agency downgraded seven companies in the sector.

The sector fell 2.1 per cent, but some individual stocks fell nearly 10 per cent. Aoki was heavily traded, falling Y8 to Y79, Sato Kogyo dropped Y10 to Y104, Fujita Y4 to Y95, and Haseko Y1 to Y73.



Banks fell on comments from a senior politician that more financial institutions were likely to fail this year, as well as on worries over exposure to south-east Asia. The sector lost 2.02 per cent. Sakura Bank dropped Y26 to Y414 in heavy volume.

Trading in Mitsui Wharf was suspended on rumours that the company had dishonoured bills for the second time in a week. Mitsui Wharf said it suspected some bills in its name had been forged.

Volume stayed low, at about 350m, as many traders still had not returned from the Golden Week holidays. Falling shares outnumbered gainers 866 to 295, with 134 unchanged.

In Osaka, the OSE index dropped 173.88 to 16,213.01 in volume of 6m shares.

JAKARTA fell 4.7 per cent as tensions grew after the political protests in Medan and in some cities in Java.

The composite index was down 20.54 at 414.63, extending the market's fall this month to 11 per cent, and to more than 21 per cent since the start of April.

Yesterday's turnover was estimated at Rp389bn as most investors, and particularly foreigners, sought to distance themselves.

Analysts noted that police fired pistol shots into the air yesterday in an effort to break up renewed rioting in Medan, a key commodity centre for surrounding oil palm and rubber plantations.

Among the blue-chip losers, Astra, the carmaker, lost Rp100 to Rp1,175, Telkom lost Rp175 to Rp2,825 and cigarette-maker Gudang Guram lost Rp625 to Rp8575.

SEOUL tumbled to the lowest level of the year as growing tensions among workers triggered selling by foreign investors. The Kospi index fell 15.57 or 4 per cent to 376.23. Foreign investors sold a net Won15bn as reports that labour unions were threatening to go on strike depressed investor confidence.

Fund-raising plans through rights issues also weighed on shares. Brokers expect Won3,000bn of funds to be raised through the market over the next two months, compared with just under Won3,000bn for the whole of last year.

Banks were weak on heavy selling. Cho Hung Bank fell Won150 to Won1,150 and Hanil Bank declined Won55 to Won 1,020. Korea Electric Power lost Won1,200 to Won16,200 while Daewoo Heavy Industries lost Won130 to Won5,850.

KUALA LUMPUR fell prey to the regional woes, losing 3.9 per cent. Concerns over the lengthening list of stockbrokers being threatened with closure added to the problems. The composite index dropped 23.78 to 584.62.

MANILA reversed a five-day winning streak, the composite index falling back 546.05 or 2.5 per cent to 2,211.13. The property sector fell 4.4 per cent.

The Business of Travel

For all the new services that they are now offering, many of the airlines are still failing badly to get the basics right, says **Michael Skapinker**

Turbulence among the passengers

The British Airways flight from London's Heathrow airport to Seattle is ready for departure and you have the best business class seat on the aircraft, in the front row of the upstairs section of a Boeing 747.

The video channel is showing the British hit film *The Full Monty*. The audio channel is running a tribute to the conductor, Sir Georg Solti, who recently died. There are times when 11 hours in the air are a pleasure.

BA is not the only airline providing this level of comfort. Qantas, BA's Australian partner, has just demonstrated its new first-class seats.

They are like BA's first-class sleeper seats, Qantas says, only better. Each Qantas seat has an individual ottoman footrest. At the touch of a button the British-designed seat is transformed into a 6ft 6in bed.

Another of the world's highly regarded airlines, Swissair, has made some innovations of its own. On its long-haul flights passengers will be able to watch films when they choose rather than when the aircraft happens to be showing them.

Passengers will be able to order their films in English, German, French, Italian, Japanese, Spanish or Chinese. In first and business class these on-demand films will be free. Economy passengers will have to pay.

It is not just on the established airlines that travelling is becoming easier. In Europe new airlines are springing up.

Their role model is Southwest Airlines of the US and like Southwest, they are offering flights at a fraction of the fares previously offered by the established airlines.

In the US airline deregulation is now 20 years old, providing a model that Europe is following.

The result of deregulation in the US, says Donald Carty, president of American Airlines, is that the US traveller has far more choice about how to get from one city to another than he or she had 20 years ago.

They might have to change aircraft rather than fly direct, but "most city pairs are connected multiple times a day by multiple carriers", he says.

As well as liberalisation within the US and Europe, a series of open skies agreements has opened up competition from North America to Europe, Japan and much of the rest of Asia.

So, as aviation's first century approaches its end, are the airlines giving customers what they want? Yes and no.

What has been described so far is the airlines' view of the world, and much of it is true. Airlines have become far more innovative and responsive to their customers.

They do compete to offer better, more comfortable service. But many passengers – and regulators – rage at the airlines' often smug representation of themselves and their industry, and their apparent inability to live up to their promises.

Some of the problems that worry passengers are not the fault of the airlines alone. Take the issue of delays. In Europe these are getting worse.

Last year almost 20 per cent of flights between European countries were more than 15 minutes late, according to the Association of European Airlines. This was a higher percentage than in 1996, which was in turn worse than the year before that.

But much of the fault lay with European air traffic control, the association said, rather than with the airlines.

Various Europe-wide initiatives have made attempts to improve the flow of aircraft and improve air traffic control co-ordination. So far the initiatives have not worked.

"The situation is as bad as it was 10 years ago," the association said. With air traffic set to increase by 5 per cent a year, an early improvement is unlikely.

Travel agents complain, too, that the formation of international airline alliances has done little to lower fares.

The alliances allow airlines to sell seats on their partners' flights. This means that they can sell tickets to destinations they do not serve themselves.

This can be convenient for passengers, the travel agents say, but there is little evidence that it results in lower prices.

Nor, it seems, has the deregulation of US aviation been the great success its champions claim. The US government said in April that the large airlines were stifling competition on some of their most important routes, propping up fares and preventing low-cost competitors from entering the market.

Where Southwest flies, fares are low. Where it does not operate, they are not. And other low-cost carriers have found it difficult to survive.

Unsurprisingly, the large US airlines reject this view. Mr Carty says: "If you have $100,000 and a leather helmet, you can start an airline. It's easy to enter the business, but it's not easy to succeed.

"The issue in our business is this. The large carrier with a large network still has a lot of value to give to his customer. The corporate account that wants to access 50 or 60 cities in three or four months would prefer to fly with a carrier that takes care of them."

Nor does Mr Carty accept that fares are unreasonably high on the routes on which Southwest does not compete. The official, or list, fares might look high, but the large carriers do not sell many tickets at that price, he says.

The large corporate buyers, particularly, demand large discounts for their bulk ticket purchases. "The percentage of our business that we are selling at list price is in single figures," he says.

The industry still, however, appears to have an image problem. Judging by the number of complaints about airlines sent to the Financial Times by its travelling readers, many passengers are deeply unhappy about the way airlines treat them.

Readers write about unaccompanied children and elderly parents being abandoned at airports by airlines that had promised to look after them.

Aircraft sometimes sit on the runway for hours before departure because of technical problems. Information about these delays is often scant.

Passengers are "bumped" off flights even though they have confirmed bookings. Baggage disappears and suitcases are wrecked.

If there is a common element to these complaints, it is not that airlines get things wrong – all businesses do at some time. The anecdotal evidence is that airlines seem less capable than companies in many other industries of providing proper redress when they do make mistakes.

Many companies in other industries have learnt that a fulsome apology and generous compensation when things go wrong often results in greater customer loyalty than if the mishap had never occurred in the first place.

FT readers frequently complain about airlines, including some of the supposed paragons mentioned above, that take months to reply to letters of complaint and are often grudging and ungracious when they do so.

One of the difficulties for complaining passengers is that aircraft have seldom been as full as they are at present. Some flights across the Atlantic this year have had load factors, or seat occupancy rates, of 98 per cent.

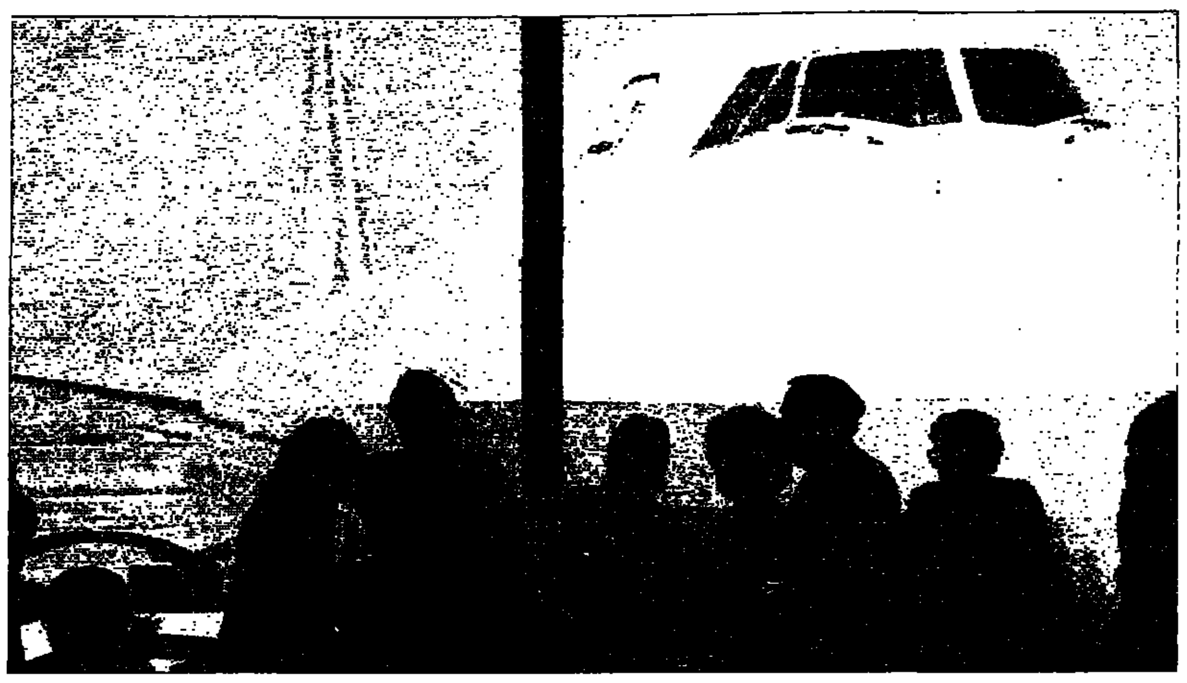
When flights are fully booked and fares are high the airlines have less reason to worry about their customers deserting them. There are not many other airlines that can accommodate these unhappy customers and there are plenty of other passengers to take their place.

But the next dip in the aviation cycle could result in many of the hopeful new carriers going out of business.

And the established airlines may have to think a bit harder about how to give their customers a lot more than simply comfortable seats and a better choice of films.

No take-offs for start-ups

Competition may be the current buzz word, but the grip of the big airlines remains strong. **Richard Tomkins** reports



Despite deregulation in the US, the big carriers still dominate

It is 20 years since the US airline industry was deregulated and if you believe the myth, the intervening years have seen the transformation of the US into a flyer's paradise.

The success of Southwest Airlines, the archetypal low-cost carrier, has given the impression that domestic fares have been driven down to rock-bottom levels by rampant competition between the big carriers and small, entrepreneurial start-ups.

Unfortunately, the reality is different. Yes, Southwest has been successful – and where it operates, fares are cheap. But in the rest of the US, competition is minimal to non-existent; new carriers have virtually given up trying to enter the market; and fares are often staggeringly high.

For example, a round-trip ticket from New York to Los Angeles, booked at short notice, costs $1,836 – and with all five big airlines flying the route charging exactly the same price, there is little evidence of competition.

Of course, not everyone pays such high prices. Leisure travellers receive big discounts for round-trip tickets if they book far enough in advance, spend a Saturday night at their destinations, and accept that they will not be able to change flights without severe financial penalties.

But business travellers are rarely able to accept such limitations, and they, in particular, are being clobbered by high prices. According to American Express Travel Related Services, which compiles an index of business fares across the US, the average one-way business fare rose by 16 per cent last year.

If these problems have only recently emerged, it is because for most of its recent history the US airline industry has been burdened by overcapacity, and airlines have been forced to keep their fares down.

But after seven years of growth in the US economy, aircraft on most routes are now full at busy times; and on routes where low-cost carriers do not compete, airlines are taking advantage of the strong demand to lift fares to record levels.

To the outsider, the puzzle is that the combination of strong demand and high fares has not attracted more new entrants to the market. The whole point of deregulation, after all, was to encourage competition by allowing any licensed carrier to fly any route at any price.

In fact, over the years, many start-up carriers have tried, and failed, to enter the market. Typically, the established carrier matches the new entrant's fares and swamps its routes with extra capacity, forcing the new entrant out. Then, the established carrier withdraws the extra capacity and puts fares back up again.

Southwest has survived these tactics because it is not a small, start-up carrier. It was in business before deregulation was introduced, and has grown to such a size that it can swamp new routes with its own capacity, throwing established carriers on to the defensive.

The established carriers have responded by setting up low-cost subsidiaries of their own to compete on routes that Southwest enters. United Airlines has United Shuttle, Delta Air Lines has Delta Express, and US Airways is about to launch MetroJet.

But Southwest operates mainly on short-haul routes with high traffic densities, which account for only a minority of all routes in the US. Elsewhere – and particularly in the densely-populated north-east – the big airlines either enjoy monopolies, or operate as an oligopoly, charging the same high fares as each other, even when ostensibly competing.

A further obstacle in the path of start-up carriers is the difficulty of getting airport access. At the nation's biggest airports – New York's JFK International and La Guardia, Washington National and Chicago O'Hare International – the big carriers have acquired all the available slots, and will not sub-let them.

In other large cities, the big airlines often hold exclusive, long-term leases on airport facilities, giving them control over access to arrival and departure gates and check-in desks.

Amid mounting protests from business travellers, small airlines and others concerned about the lack of competition, the US Department of Transportation last month announced a crackdown on the anti-competitive practices of the big airlines, warning that it would act against them if they went on driving the small carriers off domestic routes.

The department said its studies showed that the big airlines were increasingly trying to stifle competition in their main markets, leading to higher fares for some passengers and preventing others from travelling.

It proposed new guidelines for determining whether airlines were engaging in "unfair exclusionary practices".

One definition of these practices would be if a big airline cut fares to the extent that it lost more revenue than all of the new entrant's capacity could have diverted from it. Another would be if a big airline's response resulted in substantially lower operating profits, or larger losses, in the short term than a "reasonable alternative strategy" would have produced.

The department said that it would also consider allegations that the big airlines were trying to block small carriers from markets by hoarding airport gates or signing deals with local authorities that gave them exclusive access to airport infrastructure.

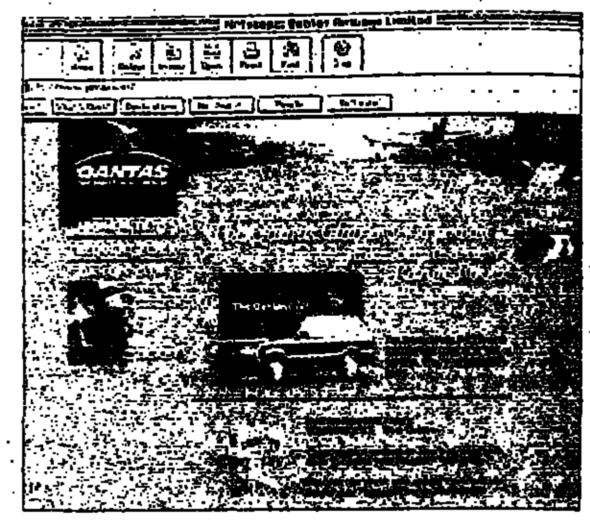
The Air Transport Association, an industry body, said that the proposals amounted to nothing short of re-regulation.

"No matter how they cut it, this policy puts government bureaucrats in the business of setting fares and determining the level of service in the market," said the association.

But high air fares and fat profits have won the big airlines few friends in Congress or anywhere else, and the proposals seem likely to be adopted in substantially their present form at the end of the 60-day consultation period.

FOCUS Airline websites

Fly me, I'm online



As an aviation journalist, there are some press officers I need never trouble again. Do I need to get hold of Boeing's most recent press release on its production difficulties or remind myself when the Airbus A340 began commercial service?

No need to pick up the phone: the world's two biggest aircraft manufacturers have easy-to-use internet websites (*www.boeing.com* and *www.airbus.com*), providing this information, and much else.

But what about the travelling public? How easy is it for airline passengers to stop using travel agents? Should travel agents plan to turn their premises into takeaway restaurants?

Some are clearly suffering. In the US, independent travel agents now handle only 52 per cent of airline reservations, compared with 80 per cent in 1996. Airlines resent having to pay commission to agents and are taking more of their bookings directly, either by telephone or on the internet.

While the telephone is an attractive option for passengers wishing to book tickets directly, a tour of some of the airline websites suggests that improvements are still needed.

Many airlines now have websites but only some provide on-line booking services and several of these are hedged about with restrictions. Many of the other websites are not worth the effort. Some make no attempt to replace the travel agents or the carrier's own telephone booking service. US Airways, for example, (*www.usairways.com*), provides route information and flight numbers and some fares, but has no on-line reservations service. Instead, customers are given numbers to call to make a booking.

Qantas of Australia (*www.qantas.com*) has an attractive blue-tinged site, with flight and schedule information that is easy to find. But passengers can again only book Qantas flights by telephone.

American Airlines (*www.americanair.com*) gives customers the opportunity to book flights online, but only if they are members of its AAdvantage frequent flyer programme. Free registration is available onsite.

What about the Star Alliance? This is a group of six airlines – United Airlines of the US, Lufthansa of Germany, Scandinavian Airlines System, Air Canada and Varig of Brazil – set up last year to offer flights to almost any destination on earth. This is the world's most extensive airline partnership. If one partner cannot fly you to a city, one of the others should be able to do so. Perfect for a website, one would think, which should be able to show you how to get, for example, from Cleveland, Ohio to Vilnius, Lithuania using some combination of the six partners.

Star Alliance's site (*www.star-alliance.com*) appears with a high-tech black background and promises "seamless worldwide travel". The website tells you which of its members services a particular destination. SAS, for example, takes you to Vilnius. But if you wanted to fly from Cleveland, the website does not tell you which flight to take to get to Vilnius, or where you might need to change aircraft. There is no fare information, let alone the opportunity to book online.

What about one of the Star Alliance's leading partners? Lufthansa (*www.lufthansa.com*) greets you with a "Welcome to InfoFlyway Interactive Travel Planning". But then a problem emerges. To use the service, you need a user identification and password. You can register and obtain one and there are no obligations attached to this, but you do have to provide your e-mail address – a disincentive to those who do not like companies' messages clogging up their electronic in-baskets.

Are any airline websites easier to use? Yes. British Midland claims to have the first online reservations system (*www.iflybritishmidland.com*), which works well. Explanations are clear but the site requires a fair amount of mouse clicking. There is a warning on the website that it can be slow when demand is high. On a weekday morning, this was borne out.

High marks for well-designed, easy-to-use websites go to British Airways (*www.british-airways.com*) and Virgin Atlantic (*www.virgin-atlantic.com*). The BA site is one of the most attractive on offer, decorated with the company's new range of ethnic designs and photographs of people from around the world in their national dress.

When asked for information about return flights from London to Johannesburg, the site offered fares in an clear format, with the opportunity to make credit card bookings online.

The Virgin site had no trouble providing fare information on flights from London to Melbourne and online booking facilities. Congratulations to Virgin, too, for making it clear that the flight would be operated not by itself but by another carrier – its partner, Malaysian Airlines.

Many of the websites are frequently improved and updated. Returning to a site even a few days later shows how hard the airlines are working at upgrading them. But compared with a phone call to a travel specialist or a visit to a travel agent, online booking still seems like hard work – at least to this traveller.

There seems little reason yet not to allow your travel agent to do the job for you. Let them frown over the screens and click their way through pages of information. That's what they are paid to do. And they still do a better job of it than most of us could.

Michael Skapinker

PROFILE Southwest Airlines

Wackiness on the wing

Southwest Airlines is far from young. Over the 27 years since it took to the Texas skies, it has spawned countless imitators. Yet it is still the low-cost airline by which all others are judged.

Indeed, its influence has spread beyond the airline industry and into management theory, where its wacky style has become the subject of serious study.

Perhaps more than any other company, Southwest Airlines has taken to extremes the idea that work can be fun. Life at Southwest is just one long hoot. Practical jokes and wisecracking are not just tolerated: they are compulsory.

Sometimes, flight attendants play tricks on passengers by hiding in the overhead luggage bins and leaping out at unexpected moments. And the attendants' safety instructions are usually an excuse for a comic turn. "Those of you who wish to smoke will please file out to our lounge on the wing, where you can enjoy our feature movie presentation, Gone With The Wind," goes a typical announcement.

The Southwest tone is set by Herbert Kelleher, the company's chairman and chief executive. Herb, as he is universally known, has a remorseless enthusiasm for jokes, pranks, laughter and warmth. Herb traces the Southwest spirit back to the company's origins as a small, entrepreneurial outfit pitted against the big airlines. From the start, Southwest used wackiness to attract attention to itself.

Catering for a predominantly male, Texan clientele, Southwest launched itself with a "love" theme. Its air hostesses, as they were then called, wore hot pants and white PVC go-go boots; drinks were Love Potions, peanuts were Love Bites, and tickets came from Love Machines.

Adjusting to a more politically correct era, the company replaced the "love" campaign by mission to deliver "positively outrageous service" at unbelievably low fares. The fun element persists because Herb believes that if a company's people are happy, everything else falls into place.

Southwest creates a feelgood effect among employees not just through laughter, but by making sure good service is recognised, sending everyone a birthday card, and marking promotions or special occasions with an impromptu party or a bottle of champagne.

In return, the company gets a workforce almost fanatically dedicated to Herb, to the job – and to keeping costs low. It's not that employees are paid particularly low wages. Rather, their high level of commitment enables them to deliver exceptionally high levels of productivity.

Crucially, for example, Southwest's aircraft achieve turnaround times between arrival and departure of just 20 minutes – less than half the time that other carriers' aircraft take to get back into the air. One reason is that flight attendants and even pilots are ready to pitch in and clean the passenger cabin, load the bags, or do anything else necessary to get the aircraft away on time.

Other cost-cutting measures include a standardised fleet of Boeing 737 aircraft, simplifying training and requiring only one parts inventory; cattle-car boarding arrangements with unassigned seating; and no in-flight service apart from the repartee, a soft drink, and a bag of nuts.

With its low costs, Southwest had adopted a very different philosophy from that of other airlines. While big carriers use sophisticated yield management systems to calculate the maximum fare that passengers will be prepared to pay, Southwest cuts fares to the minimum with the aim of filling its aircraft with people who might otherwise not have flown at all.

In doing so, Southwest has played a large part in revolutionising air travel in the US. It has done it successfully, too, growing to become the nation's seventh largest carrier. And it has made a profit every year for the past 24 years – a boast that no other US airline can make.

Richard Tomkins

Business air travel

All Go in no-frills sector

Cut-price airlines may be nearing the moment of truth, says **Michael Skapinker**

The advertisement looked slightly empty. Go, a new no-frills airline owned by British Airways, would begin flying from London to just three cities – Rome, Milan and Copenhagen.

Compared with low-fares carriers with less illustrious parents such as Ryanair, EasyJet and Debonair, this did not look like many destinations. But Barbara Cassani, Go's chief executive, says that she will announce more in the summer.

Few in the industry doubt that Go's launch in April marked the latest stage in a fierce battle for Europe's skies that will drive some of the region's airlines out of business.

The appearance of new cut-price airlines is one sign of the change which is sweeping through European aviation.

The others are continued privatisation of airlines, the attempt by established carriers to form alliances, some cemented by equity stakes, and the drive to cut costs, frequently provoking strikes by staff, from British Airways at one end of Europe to Olympic of Greece at the other.

Behind the upheaval is a decade-long programme by the European Union to liberalise Europe's skies. The process reached its formal conclusion in April last year when all EU airlines won the right not only to fly freely from one member state to another but also to begin domestic services in other member countries.

The single European aviation market, combined with the example of privatisation in other industries such as telecommunications, has prompted governments either to sell off their state-owned airlines or to make plans to do so.

Privatised airlines, such as BA and Lufthansa of Germany, have been among Europe's most successful. The Spanish government plans to sell Iberia. The French administration wants to attract private capital to Air France, although it plans to retain overall government control.

Although privatisation has improved the performance and service of several European carriers, even the most successful have had to continue to cut costs.

BA's plan to cut annual costs by £1bn by 2000 led to a three-day strike by cabin crew last summer which knocked £125m off the airline's profits.

The airlines are forced to continue to reduce their cost base because of the competition from other, freshly privatised carriers, as well as from the new no-frills companies and because fares have, in real terms, been falling for decades.

In an attempt to maintain their profits, European airlines have formed a web of alliances which allow them to feed passengers on to one another's flights.

BA is establishing links with Finnair and Lot Polish Airlines and is considering buying an equity stake in Iberia. Swissair has this year put together a new alliance with Sabena of Belgium, Austrian, TAP Air Portugal, Turkish Airlines and AOM of France.

In addition to winning more passengers, an unstated aim of airline alliances is to try to slow the fall in fares. But Stephen Wolf, chairman of US Airways and a veteran of the US airline industry, believes that the drive towards lower fares in Europe will continue whatever the large carriers do and even if some of the smaller airlines go out of business.

"What the travelling public wants is, firstly, to travel safely, secondly to do it at a convenient time and thirdly to do it as cheaply as possible," says Mr Wolf. "The consumer is going to demand low fares and the market place is going to have to respond."

The no-frills airlines have responded to this demand by offering cut-price fares, in exchange for which passengers forgo meals on board the plane and agree to be seated on a first-come, first-served basis.

Most of the low-cost entrants have based themselves in the British Isles, attracted by the flexible workforce, the liberalised aviation sector and relatively low social security costs.

Ryanair, the best established of the European no-frills airlines, has its base in Dublin. Even before the EU single aviation market had been officially completed, the airline had already begun operating domestic services in Britain.

EasyJet and Debonair both operate from London's Luton airport. Virgin Express, controlled by Richard Branson's Virgin group, is based in Brussels but is finding it difficult to operate there because of Belgium's high social security costs.


Barbara Cassani, Go's chief executive — Brendan Corr

Few expect all the new airlines to survive. In the US, which went through its deregulation in the late 1970s and 1980s, most of the early entrants disappeared.

Sir Michael Bishop, chairman of British Midland, one of Europe's best established independent airlines, which offers a full rather than a cut-price service, believes the moment of truth is approaching for the no-frills sector.

Many of the low-cost carriers have been offered low rates by the airport from which they operate. Sir Michael believes this favourable treatment might be coming to an end.

"As the airports fill up they will want to start charging the market rate for their services," Sir Michael says.

He adds that some of the low-cost carriers rely on duty-free sales to generate profits. With duty-free within the EU scheduled for abolition next year, the budget airlines could be badly hit.

Several no-frills carriers are also having to buy new aircraft to comply with new EU noise regulations.

Even if some of the new entrants go out of businesss, however, competition between the existing carriers is likely to remain intense.

As well as entering the low fares market itself, BA has a French subsidiary, Air Liberté, which competes with Air France on domestic flights. Its German company, Deutsche BA, is Lufthansa's biggest competitor in Germany.

PROFILE KLM UK

Still flying a middle course

Michael Skapinker looks at KLM UK since full control was assumed by its Dutch parent

It was a difficult time for Air UK, the London-based carrier partly owned by KLM of the Netherlands.

One one side were vigorous competitors such as British Airways and British Midland, offering meals on board and a business class service. On the other were the new breed of low-fares, no-frills carriers such as Ryanair and EasyJet.

Air UK was the second biggest airline at Amsterdam's Schiphol airport after KLM itself. It carried passengers from British regional airports to Schiphol, from where they could take flights to the US or Asia.

It also offered domestic flights in Britain and from London to other continental European cities.

But in marketing terms Air UK was stuck in the middle, a dangerous place to be when the liberalisation of the European Union aviation market had resulted in increased competition in every sector.

Last year KLM acquired the 55 per cent of Air UK it did not already own, paving the way for a rebranding and repositioning of the airline.

In February, Air UK was renamed KLM UK, making it clear that it was part of the Dutch airline's worldwide network, which includes a transatlantic alliance with Northwest Airlines of the US.

KLM decided it would be wrong, however, to try to move its British affiliate into either the full service or low fares end of the market. It would stay where it was – in the middle.

But it would come up with what it regarded as a simplified fare structure capable of winning passengers from both ends of the market – business travellers who wanted cheaper fares but some frills, and leisure passengers looking for lower prices.

How does KLM UK plan to appeal to both sets of passengers? By being a full service carrier in the mornings and evenings and a low-cost leisure airline during the middle of the day.

At the top end, KLM UK now has a fully flexible fare. Passengers can change their flights, switch to other airlines or get a refund.

At the lower end, they will pay a cheaper fare but will have to travel on the flight they have booked. They will not be able to get refunds.

Although KLM UK's 40-aircraft fleet has an undivided cabin, with no business class or economy seats, there are predominantly business class or economy flights.

During peak hours there are more fully flexible fares than cheap offerings. Passengers who fly in the morning get a cooked breakfast and a newspaper.

In the middle of the day fares are lower and passengers receive a sandwich and a drink rather than a meal. In the evening newspapers reappear on flights going to and from London City Airport.

But isn't KLM UK repeating its earlier mistake of being neither a full service nor a low cost carrier? No, says Henny Essenberg, KLM UK's chief executive.

"There are literally thousands of travellers out there whose personal requirements are not being met," he says.

"Who caters for the needs of the smaller businessman or woman who has to get to the other end of the country for a meeting first thing in the morning but does not have the travel budget of a blue chip company?

"What happens to the leisure traveller for whom the once-a-day schedule to a secondary airport offered by a no-frills carrier is inconvenient?"

Tony Camacho, marketing director, says customer research indicated that the name change would appeal to British passengers.

"Our research shows that the primary impression people have of KLM is that it is open, fresh and reliable," he says. "It also has the Dutch values of being liberal and easy-going.

"People also do not think of KLM as being gender-specific. Most airline brands are regarded as male. The negative side that we had to deal with was that KLM was perceived as not being local. That's why we added the UK tag."

Mr Camacho adds that KLM was also regarded as expensive. The airline obviously hopes that its clearer fare structure will change that perception.

But, with British Airways setting up Go, its low fares airline, at KLM UK's base at London's Stansted airport, competing at the lower end of the market will not be easy.

Business air travel

Flights of what you fancy

Roger Bray finds even more choice is being introduced to in-flight entertainment

It may not be possible in time for this year's World Cup finals in France but in four year's time, when that great soccerfest rolls around again, business travellers may not need to miss a single match.

By then, live television transmissions to aircraft, even across great stretches of ocean, could be commonplace.

Passengers on a Delta Airlines Boeing 767 in the US have already seen the future – and know it works. During a recent flight from Atlanta to Denver they were able to watch the conclusion of the American football. Superbowl. The route and destination were neatly chosen.

This was not the first time sporting events had been shown aboard the aircraft. The broadcast was part of a long-running experiment. The trial was begun by the airline in 1996 in conjunction with Hughes Avicom, which provided the hardware, and satellite company, Direct, which has just agreed a deal to relay news and other live programmes to business jets.

When trials began, reception and reliability were patchy and it was not possible to transmit more than one channel simultaneously. Although Delta was playing pioneer, it was not interested in providing live television throughout its fleet unless each passenger had an individual monitor.

This time pictures and sound were clear, says Rockwell-Collins, which took over Hughes Avicom last year. And now it is possible to transmit 14 channels at the same time. Robert Walzer, director of business development at Rockwell-Collins Passenger Systems, says the company expects to start testing the technology imminently – on the same Delta jet.

If it goes smoothly, other carriers will be anxious to offer their passengers a similar service. Those first in the race to offer real time television will enjoy a significant marketing coup.

"If it's a question of watching a game on one flight or missing it on another it could influence which carrier a traveller chooses," one industry observer says.

Rockwell-Collins uses existing satellites and says some two thirds of those being launched have the capability to provide the appropriate, high powered signals. As yet there are big gaps in the coverage over Atlantic and Pacific but work is in hand to fill them.

"If I were to bet," says Mr Walzer, "I would say the technology to provide direct transmissions to North Atlantic passengers will be available in time for the next World Cup finals [after these]. The opportunities for sponsorship are likely to provide a catalyst to speed up development."

Meanwhile the prospect of live TV should provide the industry with diversionary relief from its often frustrated efforts to provide customers with audio and video on demand – the ability to choose from an enormous range of movies and other programmes at any time during the journey and to stop and start them at will.

Although this has been viewed for some years as the ultimate in-flight entertainment goal, hardly any airlines have installed it.

Two which have are Swissair and Singapore Airlines. The former's in-flight entertainment includes a choice of 14 movies which can be viewed on demand – free in first and business class but with a US$7.95 charge in economy – and two which are started and stopped by cabin crew.

There are 20 free films on all its MD-11 and Boeing 747 aircraft. In addition, there are shorter features, using a touch screen system which also allows passengers to gamble – though not on flights to and from the US, which still bars gaming in the sky.

The latter is slightly less advanced. Since September it has been testing technology developed by Japan's Matsushita, which provides its existing multi-channel systems, on one Boeing 747 flying between Singapore and Tokyo. If none of the 15 movies available appeals, there are 10 Nintendo computer games to play.

Other carriers have decided that existing systems provide so much choice they might as well wait until on-demand technology has advanced before buying it.

"We have been campaigning for video on demand for a very long time," says Lysette Gauna, the in-flight entertainment manager for the UK's Virgin Atlantic. "We think it would be great to offer passengers the facility to stop and start films and fast forward or rewind them.

"The problem is that we already offer 12 movies, and another eight TV channels, with a total of over 40 hours of programming and there is insufficient space on the aircraft computer's file server to download that much material. Existing technology probably allows you to store only about three quarters of that."

She added that Virgin Atlantic had decided it would be a step backward to cut the choice by one third, simply to give passengers the facility of stopping and starting films.

That may soon change, she believes. As early as next spring on-demand systems may be available with much greater memories. If so, Virgin's existing systems can be upgraded.

Meanwhile Virgin has its own plans for the World Cup. During the finals it will show highlights of matches as soon as possible, and, starting this month, customers will be able to see the whole of England's triumph over Germany at Wembley in 1966, when most people's idea of in-flight entertainment was a fat paperback.

The Denver Broncos' victory: a recent flight from Atlanta to Denver showed Delta Airlines passengers live footage of the Superbowl AP

A check-out at the check-in

Although not illegal, the practice of buying airmiles from a broker is something airlines are trying to stop. **Roger Bray** looks at how effectively they are doing so

Buying frequent flyer miles from a broker is not illegal and it is certainly not difficult – but beware. Airlines are starting to crack down. If they catch you at a check-in, the chances are that they will refuse to carry you unless you buy another ticket.

The way most brokers trade is to match passengers who want to earn cash from the sale of unused rewards with customers who are seeking cut-price flights.

The seller designates the buyer as a friend or relative to whom he is giving his points, which is allowed under the rules of many loyalty programmes, but the two never meet. The dealer makes a profit by marking up the value of the miles.

Despite the difficulty of policing this grey market, it is estimated that around 10,000 travellers a year are caught at airports in the US alone. Some are allowed to carry on unhindered while the carrier takes up the cudgels with whoever sold them the points. Most are obliged to pay again before continuing their journeys.

It is easy to see why the market exists. Regular business travellers pile up points which pressure of work prevents them from enjoying. Often they are unable to use their miles before the expiry date many carriers impose.

A recent survey of long-haul passengers by the International Air Transport Association showed that, of those who belonged to more than one loyalty programme, 33 per cent failed to claim their rewards.

This clearly suits the airlines. If too many people use their miles it can upset assumptions about yield and dilute revenues. They do not like it when customers sell awards through intermediaries.

Insiders say that brokers manage to pick up miles relatively cheaply from sellers who are happy to get what they can for them. Typically, they will pay about £900 for a return ticket between Europe and the US, for example, and sell it for about £1,900, or around 30 per cent less than the regular business class fare.

According to airline loyalty programme specialist, Randy Petersen, four out of five brokered awards are tickets for international flights, and most are reckoned to be taken up by business travellers flying in first or business class.

Leisure travellers buying discounted flights cannot save enough to make it worthwhile their going to a broker, and hardly any rewards are used on domestic services.

Brokers advertise their services in newspapers and on the internet. The newspaper, USA Today, a popular vehicle for such advertisements, warns readers that many airline tickets and awards are not transferable and urges them to "check before purchasing".

Some are transferable. Vouchers, that are given as promotional incentives by supermarkets and petrol stations for example, can be traded with very little risk of detection.

The British Airways subsidiary, Air Miles, for example, allows rewards in return for vouchers. But it says it is moving increasingly towards the electronic "banking" of points, which makes their use far simpler to monitor.

Air Miles collectors can pass on their benefits to family members or live-in partners – but the company may ask for proof of their address. "This ability to transfer miles has given rise to recent reports that divorcing couples have been squabbling over who gets them," says a spokeswoman for Air Miles. "Technically speaking, they can't share them out after the divorce because they won't be living together. But we are not draconian about these rules. We are not going to take you to court."

Brokers, seeking ways to outwit those airlines limiting transfers to family members, have even matched buyers and sellers with the same surname. However, some airlines also allow their customers to pass on miles to friends beyond the family home, making it even more difficult to exercise rigorous control over their use.

Among these is United Airlines, which says that members of its Mileage Plus programme can hand on their benefits to family members or friends. It tries to eliminate abuse by issuing a form on which the person who earned the award designates the recipient or goes to a ticket office to pick it up.

It also includes a warning in its inflight magazine that anybody selling, purchasing or brokering award certificates "may be liable for payment of the full fare, damages, litigation and transaction cost. All such items are void and may be confiscated".

But as one US-based broker explains: "They aren't to know who your friends are. We give you the name of the buyer and you can write it on the form".

Such airlines are unlikely to jump on passengers who sell the odd fistful of points to an acquaintance who wants a weekend in Paris. If you keep selling them to the same broker, however, they may lose patience.

Randy Petersen, whose publication, Inside Flyer, offers advice on the latest frequent flyer programme developments, believes trade in rewards is diminishing as airlines make better use of computers to track claims.

"It is not a case of a million passengers selling one award each, it's more like a few thousand selling a lot. If you put in a reward request for someone who does not have the same surname, your name goes into a file which works as a kind of red flag if you keep on doing it".

Airline staff commonly catch out passengers by asking them who gave them the miles. If they bought them from a broker, they may not know who earned the rewards originally. They then pluck a name at random from among their friends, giving the airline the very ammunition it needs.

هكذا من الاصل

Travel management

Tortuous route to US insurance

Imagine the following nightmare. You are driving on business in Montana, where there is no general speed limit. Another motorist, ignoring the state's somewhat lame road sign exhortation to exercise prudence, smashes into you at an intersection. You are badly injured, unable to work for several months and lose a crucial contract.

Your medical costs are covered by your travel insurance policy. But you also want redress for the business you lost. So you cast around for someone to sue.

Sadly, the driver who hit your hire car was uninsured. Getting any money back will be like squeezing blood from a stone.

This scenario is fairly common in the US. It can be insured against but some policies do not include this kind of cover and car hire reservations staff are generally ignorant about it. Most travellers to the US know they need top up third party liability cover against the risk of being sued by someone they bump into on the road because the statutory minimum cover demanded in most states is far too low to protect against even a modest lawsuit.

Few are aware that insurance which provides compensation if an uninsured – or underinsured – driver hits them is a legal requirement in only 18 states, and then up to a modest maximum generally ranging from \$10,000-\$50,000. So, you should check whether the rental company provides it across the US or only in those states which demand it.

To confuse the issue further, some top-up liability policies do include it – but check the fine print. If you are buying a prepaid package, such cover may not be included. The question being debated in the UK rental industry is whether this form of cover should be offered by car hire companies, or should be part of mainstream travel policies – alongside insurance against illness or theft of baggage, for example.

Roger Bray

Driving towards a revolution

Car hire firms are introducing changes to make easier for customers, writes **Roger Bray**

Pick up a hire car by slipping your credit card and driving licence into a machine. When you drop it off, the mileage and remaining fuel are checked electronically as you pass through the car park entrance.

Rental firms are working feverishly to ensure that business travellers waste as little time as possible.

Customers of the rapidly expanding, Munich-based company Sixt can, for example, already obtain car keys from machines in Germany and will soon be able to do the same in other European countries. The machines accept plastic cards as payment and scan the client's licence or passport as additional security.

Avis, which is testing similar technology in Frankfurt, has fitted some cars with transmitters which send information from the mileage clock and fuel gauge into a computer at the return park barrier, so that the invoice is available as soon as the customer steps out of the vehicle. During the next phase of this trial, which is taking place in Britain, a machine will also deliver the invoice.

Travellers renting from Hertz in Paris can now request a vehicle with a global positioning satellite system. They tap in details of their destination and a computer gives them verbal instructions on which turnings to take.

National, whose US parent Republic Industries recently acquired Eurodollar and Alamo, plans to offer European corporate customers a service available in the US, allowing them to pick any vehicle within their price range from a rank instead of having a specific car assigned. "It has been successful in the US but it requires a very big fleet. Now that we have a sufficient number of vehicles in Europe we can try it here," a spokeswoman says.

The impetus for such improvements has come from a period of widespread upheaval in the industry. Though some travel managers fear rates may edge up when the dust settles, recent changes of ownership and the emergence of fresh competition have inspired an intense round of marketing initiatives.

Not least among these developments is National's expansion. Geoff Corbett, European president and chief executive officer of Republic Industries Automotive Rental Group, claims that with more than 3,000 locations it has become "the first car rental company dedicated to business travel across the world".

As a result there are now several firms, concentrating mainly in the leisure sector but with offers open equally to business travellers, all promising to undercut each others' prices.

Other improvements to service are being put into place. Anyone who has tried to rent a car from one of the big chains on a Sunday other than in an airport or a city centre, or who has fallen for a low basic price only to be laden with extras, knows that the industry has some way to go in its quest to become more consumer-friendly. But some big improvements have been made.

Hertz, for example, is installing covered walkways to and from car parking spaces at 40 US airports "to protect customers from the excesses of rain and burning sunshine". They are already in place at Atlanta, Charlotte (North Carolina), Cincinnati, Dallas-Fort Worth, Denver, Miami, Detroit and San Antonio, (Texas).

Budget is courting ecology-conscious travellers by extending the availability of gas-powered cars. Having launched the idea in Norway and Sweden and then introduced electric cars in Paris and Lyon, it now has 50 Ford Mondeos powered by liquid paraffin gas in its London fleet at Heathrow and Victoria.

A service called Rapid Return has been launched by Europcar at Heathrow. The car's registration number is recorded as the driver enters the car park and, by the time customers draw to a halt, staff equipped with portable computer terminals welcome them by name and print out receipts on the spot. National is testing a similar system.

Europcar, which recently acquired British Car Rental, also intends to offer its "sign and drive" service, already available in Britain, Belgium, France and Germany, in all leading European cities by the end of this year.

Key corporate customers can have documentation completed in advance. All the customer does is sign a form at the rental desk and drive off.

Business travellers on a budget can also take advantage of the highly aggressive deals available in the leisure market. In Britain, for example, three companies with sizeable international networks – Holiday Autos, Suncars and newcomer Hire for Lower – have been promising to undercut rival weekly rates by £5, £10 and £20 respectively. The disadvantage is that they tend to rent for a minimum period, mostly three days.

The impact of such competition on overall prices is illustrated by the constantly updated Dow Jones Travel Index. In one randomly selected spring week average daily costs within the US ranged from \$64 in New York and \$54 in Chicago to \$43 in Los Angeles \$32 in Orlando and \$29 in Miami.

Mick Shires, group managing director of Holiday Autos, which has just announced a new range of price cuts after renegotiating deals with its suppliers, estimates that between five and 10 per cent of the firm's customers are on business.

"Our brand doesn't target them and, while we do offer one day rates, we don't overtly promote them," he says. "But business travellers have become cute and company travel organisers know that there are deals if you are prepared to pre-pay, because with us you can't pay with a credit card when you pick up the car."

No such thing as a free lunch

Amon Cohen finds a balancing act is required in managing a company credit card

The art of corporate travel management is finding the delicate balance between maximising savings for the employer and optimising service, convenience and comfort for the employee.

Corporate charge cards are an example of where the two imperatives meet. For the employer, they aid cash-flow, simplify expense administration and allow them to keep an eye on what their travellers are spending.

For the employee, they are a handy way of paying for travel and entertainment (T&E) expenses while on the move. Card companies also provide basic travel insurance and emergency assistance if the card and any accompanying tickets, passport or cash are stolen.

Furthermore, having a separate card for business purposes helps the employee keep private and corporate expenses separate, greatly simplifying the monthly task of expense reclamation.

On top of all that, Diners Club and American Express offer membership perks not related strictly to T&E management. Diners' cardholders, for instance, have access to 72 airport lounges worldwide. There are also discounted leisure products and services, such as a golf scheme admitting Diners' cardholders to courses around Europe for discounted green fees.

Perhaps the most potent perks are the loyalty programmes, whereby cardholders earn reward points every time they use their card. The co-branded British Airways Diners Club card is the most powerful of these. Cardholders earn one airmile for every £5 spent on BA flights (up to £30,000 per year when it becomes one for every £10) and one airmiles for every £10 on all other transactions made through the card.

Amex's Membership Rewards, allows earned points to be redeemed against reward programmes operated by airlines and hotel groups. Unlike Diners, cardholders have to pay an annual fee of £35 for the privilege. Visa has no consistent loyalty programme but an offering is available from some card issuers.

The benefits of a loyalty programme for the traveller are obvious but for the employer they are not clear. It is arguable that such schemes contradict the card companies' professed aim of helping corporations to control travel expenses by giving travellers a powerful incentive to spend less.

Don Osvog, Diners Club UK managing director, disagrees. Mr Osvog says that, in an age in which fewer staff are working harder and travelling more, few executives would go away on business simply to run up more airmiles. "These people want to travel less, not more, so the chances of abuse are less."

In any case, says Mr Osvog, the information provided by a card makes it hard to abuse company expenses. Big card providers offer corporate clients computerised information products that enable them to see how much each employee spends through the card and with which suppliers.

They can also provide enhanced data, such as class of travel, making it possible for a finance director or corporate travel manager to run exception reports, spotlighting for instance, employees who do not fly with preferred airlines or travel in business class when they should be in economy.

However, Mr Osvog offers a far more fundamental reason why cards should have loyalty programmes attached. It relates to the essence of travel purchasing – indeed, any area of purchasing – which is the manipulation of information.

The spending information generated by a T&E card gives purchasers the precise data they require for leveraging deals with suppliers, who want to know exactly how much business they stand to gain (or lose) before agreeing a discount.

Mr Osvog says corporations channel should all their T&E spend through the same card to ensure management information is as complete as possible.

Mr Osvog's rivals are far less bullish about their loyalty programmes. John Chaplin, Visa senior vice-president for commercial products, says only 20 per cent of his clients want a reward scheme to stimulate card usage. He also warns that loyalty has a price. "There is no such thing as a free lunch: it is quite expensive to put on such a scheme and ultimately the card provider will have to recover the money one way or another from the client," says Mr Chaplin.

Chris Sharp, Amex UK head of corporate services, says his team makes a thorough audit of new clients' expense management processes before deciding whether to recommend that employees be allowed to sign up to Membership Rewards. But in most cases, he says, it is counter-productive.

"I would advise against loyalty programmes unless they can be used satisfactorily in the interests of both companies and their travellers," he says.

Travel management

Homely touches would help

Ian Hamilton Fazey hears business travellers talk about the services they would like to see provided in hotels

Business travel should be as painless as possible, a pleasure if achievable, an enriching experience if there is time to enjoy it – but also value for money.

It is rarely all of these things and more often none of them. The rigours of business travel include perpetual tiredness, lack of sleep, too much changing of cities and hotels, difficulty in checking into hotels early, and objections from the hotel management to checking out late.

Even a relaxing swim may be difficult if the pool is an architectural feature shaped in such a way as to make aerobically rhythmic cruising speeds impossible – and it may well not be open early or late enough to fit in with the business traveller's working schedule.

These were some of the views to emerge from a focus group of Financial Times reader volunteers who assembled for breakfast in the Hyatt Carlton Tower in London to discuss the future of business travel. Each focus group member was an experienced traveller, mainly in the US, Europe and Asia. Hyatt and the rest of the hotel industry may not be too happy with some of the result.

Hotel executives pressed the group on whether people would be prepared to pay more for better services. Two replies summed up the group's feelings: "The onus is on the hotel industry to keep improving," one member of the group said.

"It's like any other consumer product that keeps getting better all the time. One would expect the hotel industry to do the same, but not necessarily keep jacking up prices.

"But you also want to retain some notion of personal contact and not be stuck in a room with buttons to press where you have to interact with the phone to get your messages. You think I'm doing a bit more work here than I should be. This message should just arrive for me.

"You don't want to spend all your time dealing with machines. You want a bit of home, with someone else to look after you a bit."

People will pay for such a service, within reason. As another participant put it: "The analogy with falling PC prices is appropriate. You can pay a very low price for a machine at home and just get a box with everything on and in it, but since my son is the only techie in our family, it is just as important for the rest of us to have service and support.

"It is the same with hotels. You can sell anything for a price, but the thing which makes the difference and attracts loyalty is not discounting down to the bottom, but differentiating yourself, so that people say, 'Yes, they cost a bit more, but it's worth it because ...'"

There is, of course, a limit to how much more the customer will pay. Most of the group stayed occasionally at the heights of the luxury market, but not often. They might, for instance, want to impress a customer, maybe there was a discount to attract new users or, perhaps, someone else was paying.

Generally, they might pay another \$50 a night for better service on a typical rate of \$20, but not much more, and they would seriously question value for money at anything above \$300.

The focus groups comprised Rodney Kent, an investment banker, Mark Lee, a corporate identity consultant, Richard Parkinson, an engineering group executive, David Sinclair, a chartered accountant, Charles Maver, a merchant banker, Graham Field, a freelance writer, and Mark Cunningham, an advertising agency director.

Want to be alone, madam? Greta Garbo in 'Grand Hotel'. The onus is on the hotel industry to keep improving *The Kobal Collection*

Travel ceased to be an adventure for them years ago, although all would still like it to be so, if there were time to stay somewhere interesting, possibly out of town.

But usually, time was too short. Downtown locations are essential for most business travellers, so the hotels they use tend to be large, modern, and standard. While the economies of scale help to keep prices down, it does not usually help to create the personal touch.

As one of the group put it: "Travelling on business is a dehumanising experience. You are in limbo in airport buses and cabs and so on, so you want to be able to re-establish your personality wherever you are, especially if you are in a lot of grinding meetings all the time.

"You want to be able to get back to the room and think, OK, here I am; me again. You want to get away from that airport lounge/lobby environment."

Simple things might help, such as a reliable TV guide or a selection of books and magazines, rather than the usual anodyne promotional journals found in most hotel rooms.

Business travellers also like to be in charge of their environment rather than at its mercy. Controlling room temperature is a must – and most would like to be able to open a window. They also want quiet rooms, soundproofed from the couple next door, the disco, or the piano bar in the lobby.

As for work, connection points for e-mail, with adapters for local electronic protocols, are expected to be standard and, while most wanted to be able to work in their room they wanted it to be a home, not an office.

The biggest worry for everyone was security of business information, particularly with faxes, where most people had experience of late or non-delivery. In-room fax machines were a solution, provided they were silent, so that people were not woken by them at night.

No one placed any great value on hotel loyalty schemes: points were difficult to accrue and disappeared too quickly, if stays became less frequent.

Airmiles were considered more understandable and easier to "bank", so why not offer them more often as incentives for regular hotel use?

Rewards, it was felt, should be tangible and within reasonable reach. One suggested incentive was free weekend hotel accommodation that might help make business travel easier to put up with. If it can rarely be a pleasure, at least it should be made less painful.

Benefits come with loyalty

Tom O'Toole, Hyatt's senior vice-president for marketing in Chicago, believes the best way for business travellers to get better service is to use with one hotel chain.

The conventional wisdom that hotels take more care of regular guests than of casual customers is, he says, true. Moreover, information technology can now identify customers of the chain, rather than of the individual hotel, so benefits should accrue worldwide.

Michael Gray, manager of the Hyatt Carlton Tower in London, explains what this can mean: "It is likely we will give a room when we are sold-out to someone who has never stayed here before because we know he is a regular customer of Hyatt in San Francisco." The company's database, which lists its top customers, can be accessed on a daily basis by any hotel in the chain.

Hyatt also analyses travel patterns internationally so it can target its marketing. Mr O'Toole says a customer who stays in a Hyatt in Hong Kong and Los Angeles can thus be identified as a prospect for San Francisco, or another city around the Pacific Rim, and approached accordingly.

The company can also identify customers who have stopped using the chain, or even just one of its hotels, triggering an approach to find out why.

"We need to know whether the pattern changed because the engineering project in Singapore ended or because Shangri-La introduced a better programme, or because of a missed wake-up call one day," says Mr O'Toole.

He will not disclose the threshold of spending that qualifies for such attention, but says that while fewer than 10 per cent of customers are involved, they account for a "much greater" share of revenue. People are often pleasantly surprised by the approach – and candid. If they have switched to another chain, Hyatt will try to win them back.

All the large hotel groups have acquisition and retention marketing strategies and aim to win business from each other. Mr Gray says that on any day, half the guests at the Hyatt Carlton Tower will have stayed there before.

However, the problem is consistency. All chains have hotels which, in some cities, rank in the premier division, but in others are well into the second tier. This which stops many travellers putting all their eggs in one basket.

Ian Hamilton Fazey

PROFILE Catlin Holdings

Disciplines pay dividends

Large companies can reduce multi million pound travel budgets through careful leveraging and by consolidating business with fewer suppliers but smaller companies usually lack this buying power.

Yet, there are still dozens of ways they can reduce travel costs if they are flexible and are prepared to lay down a few rules for their travellers.

One company which has successfully achieved this is London-based Lloyd's underwriting agency, Catlin Holdings. The agency has a staff of 54, of whom around 20 travel abroad on company business, a dozen of them regularly.

As a result, Catlin spends £240,000 annually on travel but the figure would be far higher if it were not disciplined in its purchasing. The first and most crucial step is to employ a good business travel agency.

Many travel purchasers believe the size of agency should fit the size of client and Catlin is no exception. Travel manager, Pam Howlett, stopped using its previous agency a year ago and hired medium-sized City specialist Chambers Travel Management instead.

"I felt our previous supplier was too big and we were too small," Ms Howlett explains.

Chambers was recommended to Catlin by a large broking company for whose business it had pitched. The broker was impressed by Chambers but decided it was too small for its requirements.

When an appropriate agency has been selected, the next step is to formulate a policy. Catlin has two basic rules: one is that business-class travel is only permitted on journeys longer than eight hours; the other is that travellers must take the cheapest flight suggested by Chambers unless they have a good reason for not doing so.

When quoting a fare for a journey, Chambers provides the standard price for the most direct flight, usually with British Airways, plus cheaper options via an indirect route or with a rival carrier. These can save thousands of pounds. One recent quote for a trip to Australia was £4,000. A less direct routing was only £1,800.

The trick is to find savings that do not inconvenience the traveller too greatly but, inevitably, there will be a trade-off between service and savings. Catlin compromises by allowing business class travel but imposing longer journey times. "If it is a case of sitting in an airport for a couple of hours to save £2,000, it is worth it," says Ms Howlett.

Not all the discounted fares dreamed up by Chambers involve indirect flights, however. One Catlin employee recently travelled to Beijing and Hong Kong. By buying two one-way fares instead of a return, the return journey was priced in the weak Hong Kong currency, producing an instant saving of £700.

Now Catlin has been a year with Chambers, the travel agency has collected enough data to see if some limited route deals are possible. An airline is unlikely to give a customer of Catlin's size across-the-board discounts but might agree to a deal on a heavily used route, especially if Catlin can prove that it will add more business next year by flying all its passengers with the same airline.

Catlin's finance director also uses Chambers' monthly data plus employees' Amex charge card statements to check no one is spending injudiciously. In addition, Catlin employs a simple but effective internal system to prevent overspending.

Before each trip, travellers must submit to the chairman a budget for every aspect of their journey, including flight, hotel and entertainment costs. "The budgets have to be signed off by the chairman, who has done all the trips before, so he knows what is sensible," says Ms Howlett.

"I also check with Chambers to make sure travellers have taken the lowest fare offered. When travellers return, they have to fill in the amount spent on the trip. If it comes in under budget, all well and good; if not, they have some explaining to do."

Another money-waster is hotel telephone bills. Catlin is experimenting with a company international mobile telephone which travellers plug into their lap-tops in order to communicate by e-mail.

The disciplines imposed by Catlin – especially indirect flying – do involve some sacrifices by employees but even the structure of the company encourages them to be prudent. "Our travellers sometimes fly at weekends to save money but they are all responsible for their own budgets," says Ms Howlett. "It means they know that the more money they save, the more money will eventually go into their own pockets."

Amon Cohen

Travellers' tales

Surviving four weeks every year in the air

Logistical mastery keeps Kevin Roberts, Saatchi & Saatchi Worldwide's CEO, in four locations a month, says Gillian Upton

Kevin Roberts has a travel schedule most people would find a nightmare. As chief executive officer worldwide for the past year of advertising agency, Saatchi & Saatchi, he spends every month travelling to at least four different places. One week he spends in New York, one in London, another in Auckland and the remaining week in other company offices.

"That's going to be the norm," he says. In the past 12 months he has flown over 360,000 miles on 128 flights and been in the air for almost 34 days, which took him to 40 cities in 24 countries.

The company, which is the original agency the Saatchi brothers ran until three years ago, has 160 offices in 91 countries so he still has a long way to go. He refuses to travel, for security reasons, to Russia, South Africa and Colombia.

Some of the gruelling schedule is self-inflicted as, although the company is London-based, British-born Roberts has chosen to keep his home base in Auckland, where he lives with his wife, Rowena, and three children. "Some things I would never, ever do. I never want to leave New Zealand and that was my stipulation when taking this job. The compromise is that I'm there a week a month."

As a family they love to travel and join him when they can. Roberts' career has fed this interest. During his eight years with Procter & Gamble he was based in Switzerland and Casablanca, and as president of Pepsi Middle East he and his family lived in Cyprus. Before joining the agency he was with New Zealand-based, Lion Brewery, a job which took him regularly to China.

Rowena runs a corporate travel agency and takes care of all her husband's travel arrangements. A family-owned loft in New York's Soho obviates the need for hotel stays in the Big Apple, and outside that his business schedule has to work with the precision of a Swiss watch.

"For me, the schedule isn't crazy. I love travelling and I have incredible logistical back-up. A highly qualified travel agency and excellent secretaries in New York and Auckland. I don't leave anything to chance so I don't end up on a [small] plane or a flight which stops three times."

By booking all travel through Auckland, rather than the US, he reckons to save the company 25 per cent. He travels first class most of the time and utilises airline alliances and frequent flyer miles to extend the budget more. He only does two things on a plane, sleep or work. "I don't talk, I don't watch movies, I don't drink alcohol and I generally don't eat," he says emphatically.

It means that he is particularly sensitive to the merits and demerits of airline seats. In the US he patronises Delta, an agency client. "They've got good seats and the express spa meal they offer is excellent. It's healthy, tasty and fast."

He rates British Airways' first class seat the best in the skies, acknowledging, however, that others are matching it. "The best thing is the complete privacy you have when you work, and a big table. I usually have dinner in the lounge before I get on, which is a super smart idea from the airlines."

He also likes Air New Zealand, United and Qantas and always chooses seat 2A at the window. He flies Concorde infrequently as for him it does not deliver value. "I can't work on it, the seats are too small so it's three and half hours of dead time for a big price premium."

Jet-lag, seemingly, is not an issue. He adjusts his watch as soon as he boards and takes a sleeping pill if he wants to sleep. "One theory is that I'm permanently jet-lagged or, because I'm constantly moving, I don't get it."

When on the ground, he has strict criteria about where he stays. "It's got to have a big desk, two phones lines, a fax machine (the whining through the night bugs me but I usually sleep through it), a great bar and it must have a gym otherwise you can gross out in my business. I work a lot better when I've exercised."

The new wave of designer hotels generally fit the bill and his favourites are the Montalembert in Paris, the Metropolitan in London , Das Triest in Vienna and the clutch of Phillip Starck-designed hotels across the US, the last of which has influenced the interior design of his New York loft.

Every three months he comes to a halt. "I plan my business in 100 days leaps and set achievements for that period. Ninety to 120 days is all I can do before I need a week's break." Then he catches up on lost sleep.

When on the road, contact with his office is a low-tech affair. He admits to being a communications dinosaur, despite heading a communications company, although he is at ease with videoconferencing, teleconferencing and dictaphones.

"I don't carry a laptop. I'm the wrong generation at 48 and confidentiality is a concern too," he says. "I'm frightened of laptops. My kids have had various attempts to coach me through it."

Instead, he carries a ton of mail which his office couriers to him daily to scribble on and send back, having delegated as much as possible. "You only have to handle a piece of paper once and get it closer to the person who is nearest to the problem.

"People take the rise out of me because I rely on secretaries and couriers. In this business you want your bosses to be idiosyncratic. The people that make it are odd," he contends. He sees himself primarily as a coach to the company's 6,000 highly creative staff.

What would make his life on the road easier are more telephones on aircraft in places which give privacy – "that's my biggest bugbear" – and more airlines offering facilities on arrival. "Airlines need to do more for you before and after the flight."

Briefly

Buckling down to seatbelt vigilance

At least four North American airlines propose to require passengers to wear seatbelts throughout their flights. It makes good sense, because it reduces the risk that they will be thrown about if the aircraft hits turbulence. Carriers have long recommended that customers stay buckled up when they are sitting – but how can carriers insist? Tricky, admits American Airlines, which says it intends to introduce such a requirement soon. "We will encourage customers much more strongly and probably get cabin staff to remind them from time to time – but we can't handcuff them and make them obey," says a spokeswoman. Rival Delta will also crack down this summer and similar measures have been announced by Alaska Airlines, its sister company Horizon Air, and Air Canada.

Stagnant demand

Business travel demand within Europe was stagnant overall last year, a survey suggests, but there were sharp differences between countries. The number of trips made by UK executives soared by 29 per cent. At the other extreme, travel by the French fell by 16 per cent. The figures come from the European Travel Monitor, which is published in Germany. They show that business trips to Austria, Belgium, France, Germany, the Netherlands and Switzerland rose by 7 per cent and those to Britain, Denmark, Sweden, Norway, Finland and Ireland went up by 3 per cent. But travel to eastern Europe and Mediterranean countries fell.

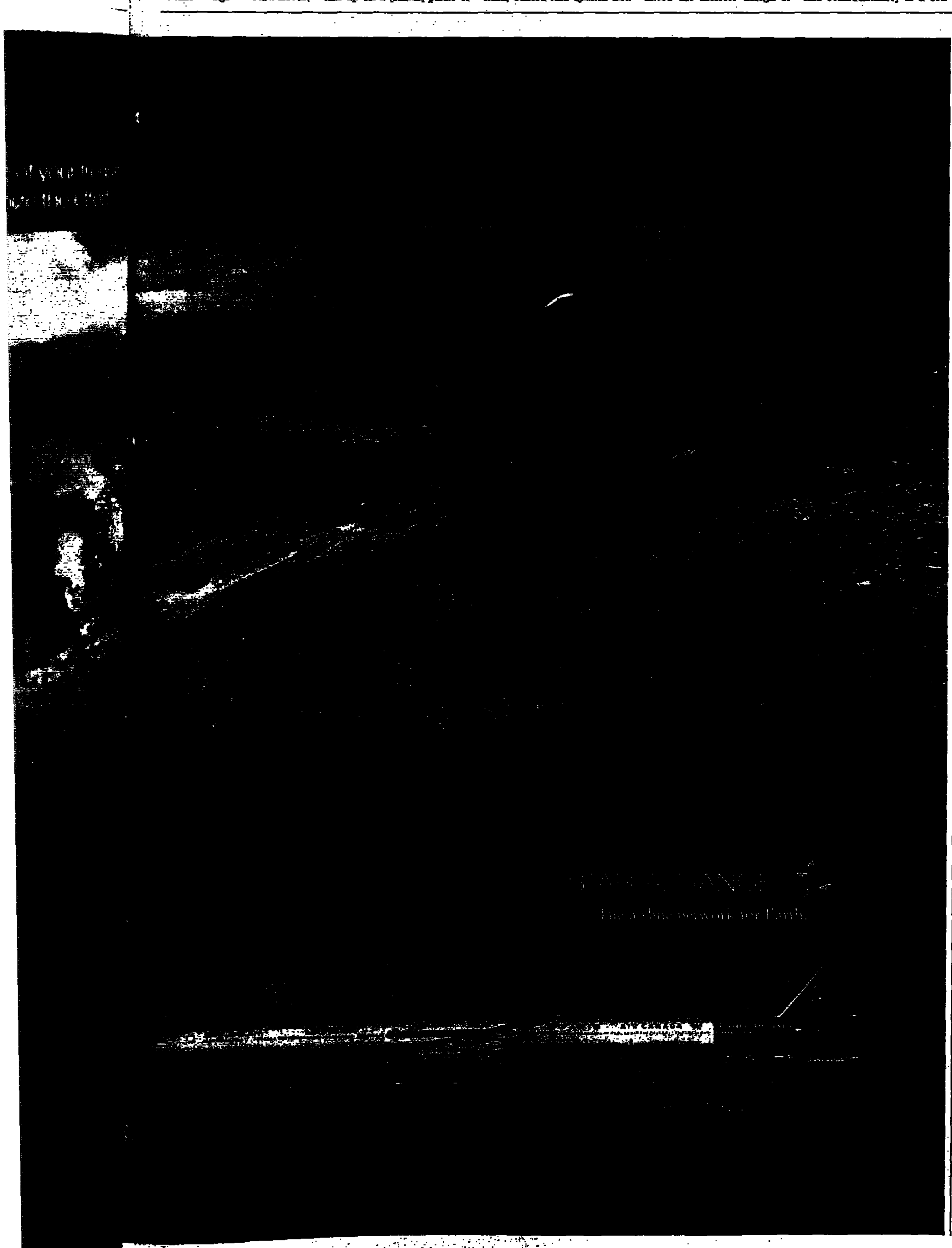
Spanish centres

Spain will soon have two new conference centres. The first will open in June, in Valencia, the country's third largest city. Designed by British architect Sir Norman Foster, the oval shaped building will have huge walls of glass and will comprise three auditoriums for totals of 250, 500 and 1,500 delegates. The second is scheduled to open by the end of next year on the Avenida Diagonal in Barcelona. The Pta5500m Congress Palace will have two large halls, each seating about 2,200 people, one of which will be divisible into 18 smaller meeting rooms. It will also incorporate 1,590 sq m of exhibition space and an underground car park.

The Japanese connection

Airlines have wasted no time launching new flights between the US and Japan since this year's agreement by the Tokyo and Washington governments on more open skies. American Airlines is flying between Chicago and Tokyo's Narita Airport. Northwest and United Airlines have also announced start dates this summer. The former will open a route linking the car manufacturing centres of Detroit and Nagoya on June 2 – be non-stop flights, three times a week. The latter will start services between Chicago and Osaka on July 8. United operates non-stop flights between Osaka and San Francisco, Los Angeles and Honolulu. And Continental will fly non-stop to Tokyo from Newark in November and from Houston the following month.

Roger Bray



With a sketchpad at the ready

Gillian Upton talks to Louise Kennedy, a designer who picks up inspiration on her travels

Irish womenswear designer, Louise Kennedy, has two constant travel companions, a sketchpad and travel journal. She records shapes, colours, a piece of furniture, or articles she has read, indeed whatever catches her eye. And they occupy her on flights.

"It's a comfort thing. I relax by doodling and I'm always looking. I learn from different cultures. Travelling is inspirational. Your subconscious is always working. Even if I drive through the countryside I'm looking at the mountains and colours," she says.

On average she travels for half of every month and mostly within Europe. Mostly, she visits trade shows, fabric fairs or her factories in Italy, Austria and Germany. Then there are mills to visit in Paris and two factories in Ireland, in Dublin and Limerick. Last month she was in New York, which she visits four times a year, for Fashion Week, and doubled as a commentator for Sky TV. "I love the buzz of New York," she says.

"Every week I'm travelling but it never bothers me," she says. She is always on the look out for new fabric developments, as this, coupled with colour, is her forte. She has mixed together, for example, lycra with linen so it holds its shape better.

"Colour and fabric is everything," she says. Her look is beautifully cut suits and she mainly dresses career women. Her interest came from the family drapery business in County Tipperary, for which she became the buyer. Today, her Dublin-based company exports to the UK, where she has 50 outlets, and to Iceland and Sweden. She is soon to open her first retail outlet in Dublin, in a converted Georgian house which will also be her home and studio.

Aside from clothes, it will sell Phillip Tracy hats, bags and gloves, her own line of crystalware, which has taken her on trips to Prague, and generally interesting items for the home bought on her travels in Hong Kong and Mexico. There are also plans to open a shop in London.

Expansion will mean more travel but the prospect does not faze her. "I relish not knowing where I'm going to be from week to week. I'd like to check out the knitwear situation in Mauritius, it's a large industry.

"Flying doesn't tire me," she says. "I get very little jet-lag. But I'm always late for flights, the airline staff laugh at me but I've only missed a flight once."

She does plan trips carefully, avoiding meetings straight after a long-haul flight for example, and always sticks to the itinerary. "It makes travelling easy. I chat on board with my colleagues, read, sketch or catch up on notes so I'm very focused."

She's found a car company in London which she always uses, FirstTravel, to drive her from Heathrow to the centre of London. "They have great quality cars and courteous and knowledgeable drivers."

Keeping luggage to a minimum is easy for Ms Kennedy. She colour co-ordinates all her clothes and travels light, managing with hand luggage only for most journeys.

She stays loyal to Aer Lingus and Ryanair for the journeys she makes into London and, because the company is budget-conscious, she will patronise the no-frills airline EasyJet.

She uses British Airways long-haul because of its breadth of destinations. "I find them excellent but I've never had a bad experience with any airline," she says. Ms Kennedy sounds like the customer all airlines would relish.

She says: "I have no children and am not married so it never bothers me if a flight gets cancelled. A single person has a different perspective on it."

When it comes to choosing hotels, she relies on recommendations and often books suites so she can entertain.

In Paris she stays at the Montalembert. "It's wonderful for people staying on their own. Staff are consistently good and there is a great restaurant downstairs. In New York it has to be the Four Seasons or the Plaza Athenée and in Dublin she uses the Clarence or the Merrion.

"I like smaller hotels generally. Staff attitude is vital, particularly when you're travelling on your own. I like my room to be comfortable and spotlessly clean, but that's never an issue, and, on top of that, it has to have a good concierge. He can set the tone of the whole place for me.

"A bad experience at the reception desk or concierge and it can tarnish your whole stay. There is a big difference between someone saying 'No' to a request and saying 'We'll see what we can do'."

Getting around: Africa

SOUTH AFRICA

By Victor Mallet

South Africa is by far the most developed economy in sub-Saharan Africa. It produces more electricity, for example, than all the other countries combined. The transport, communications and banking infrastructure is excellent, and Johannesburg – the business capital – is a hub for flights to the rest of the region. Other big South African cities are Pretoria, the administrative capital, which is 40 minutes from Johannesburg by road; Cape Town, where parliament sits; and Durban, the port on the Indian Ocean. South Africa is perhaps best known for its mineral wealth, including gold and platinum. But it is also rich in tourist attractions – including game parks, beaches, mountains, deserts, forests and the Cape of Good Hope itself – and the tourism industry has grown rapidly since the country's first all-race election in 1994. English is widely spoken.

Visas

Citizens of most European Union and many Commonwealth countries, and those of the US, Japan and Switzerland, do not normally require visas for short visits.

Airlines

South Africa is well served by international flights to and from Europe, Asia and the rest of Africa, and South African Airways flies to Miami and New York. Johannesburg is the principal airport. There are frequent domestic flights to Cape Town, Durban, Port Elizabeth and East London. SAA no longer has a monopoly on local routes; other carriers are British Airways (operated by Comair), Sabena's Nationwide, and Sun Air. The rapid growth in traffic in the past few years has left some South African airports congested, but expansion programmes are under way and the airports generally run smoothly.

Local transport

The road network is good and South Africa is – at least for visitors and for its wealthier inhabitants – very much a car-oriented society. Car hire is easy, while taxis are available at airports and big hotels. Visitors should be alert to the possibility of crime and should take precautions against car hijackings and street robberies. Car doors should be locked and valuables, including mobile telephones, should be hidden from view.

Hotels

There is no shortage of first-class hotels. Cape Town has the magnificent pink stucco Mount Nelson which overlooks the city from the foot of Table Mountain. In Durban, there is the Royal, and Johannesburg has the new Westcliff. Many businesses have moved out of Johannesburg's city centre to the northern suburbs, and the downtown Carlton Hotel has closed. Instead there are the Hilton, Intercontinental or Holiday Inn hotels in Sandton, and the Hyatt in Rosebank.

Eating out

For those with foreign currency, South African restaurants, and Cape wines, are very good value. Seafood and meat are generally of high quality in the big cities, although there is tendency to offer huge portions and to smother delicate flavours with cheese sauce. Most international cuisines are well represented, including Italian, Portuguese and Japanese, but it is worth trying Afrikaans specialities, especially in Cape Town or Pretoria. Dishes include waterblommetjie (water lily) soup, bobotie, a Malay-style spicy mince, and deserts such as melktert (milk tart) and sweet pastries called koeksisters.

The magnificent pink stucco Mount Nelson hotel which overlooks Cape Town from the foot of Table Mountain Sarah Murray

NIGERIA

Nigeria, the most populated country in Africa, enjoys a fearsome if not always well deserved reputation as a difficult destination for the first-time visitor.

While infrastructure is poor and officialdom can seem intimidating, parts of the country are beautiful and festivals, often associated with religious holidays, point towards a proud and diverse history.

Most business is conducted in the largest commercial city and usual point of entry, Lagos, the capital, Abuja, and the centre of the oil industry, Port Harcourt.

Visas

Nationals from most countries outside west and central Africa require visas issued in their country of origin and a health certificate showing proof of vaccination against yellow fever.

Business travellers must usually provide a letter of invitation from Nigeria, while visa fees for European and American travellers are uncommonly high.

Airlines

A combination of political factors and safety concerns means there are at present no direct flights to Nigeria from Britain or the US. Most European airlines, however, have regular services to Lagos, which also has good connections with other destinations in Africa.

Kano in the north has an international airport but the capital, Abuja, for the moment receives only domestic flights. Local carriers, with the partial exception of Bellview, have a justifiably poor reputation for safety and reliability.

Local transport

Public transport is crowded, chaotic and certainly not for the faint-hearted. Taxis are available from larger hotels, with prices depending on the availability of petrol.

Lagos is notorious for its perpetual traffic jams, known locally as go-slows, while Abuja, still in the process of construction, is much quieter. Travelling the lengthy distances between Nigeria's main urban centres can be problematic.

Lagos to Abuja is 10 uncomfortable and not always safe hours by road, while the ageing fleets operated by local airlines inspire little confidence.

The railway network is in the process of rehabilitation but remains desperately slow and unreliable.

Hotels

Given its size and business prominence, there are surprisingly few hotels of an international standard in Nigeria. The Lagos Sheraton is conveniently close to the airport but far from the city's commercial centre, while the Eko Meridian is extremely expensive.

Abuja offers the gargantuan Nicon Noga Hilton and the similarly huge Sheraton. Elsewhere, choice is extremely limited for those looking for reliable supplies of water and electricity, modern telecommunications facilities or decent service.

Several established companies, however, have their own capacity to accommodate visitors.

Eating out

Years of recession, combined with a British colonial heritage, means that Nigeria is rarely rated as a culinary experience of note. Most towns and cities offer a sprinkling of Lebanese, European or Indian restaurants.

More adventurous travellers, however, may be tempted by the ubiquitous pepper soup served at local establishments, often sufficiently powerful to bring tears to the eyes. Land snails, considered a delicacy in the south-west, are very much an acquired taste, although pounded yam and cassava leaf stew are more accessible.

Imported beer and wine are widely available but can prove expensive. Local brews are of a distinctly mixed quality.

MOROCCO

By Roula Khalaf

The kingdom of Morocco is a favourite tourist destination in North Africa, combining beach with desert adventure and magnificent mountains. Morocco offers a perfect opportunity to combine business and pleasure. Rabat is the political capital, quiet and disciplined, and Casablanca the bustling financial centre. Tangiers no longer has the cachet of favourite port for the rich and famous, but Marrakech and the Atlas mountains are an attraction and tiny Agadir draws many for a lazy week-end on the beach.

Visas

Travellers from Europe and the US do not need visa unless they are staying for more than three months. Dozens of other nationalities do, however, and should check with local embassies.

Airlines

Royal Air Maroc is the national carrier. Between RAM and European airlines, you can get daily service to and from Morocco. The main airport is in Casablanca and it takes about one and a half hours to drive from there to Rabat and about three hours to Marrakech. But you will also find many direct flights from Europe to other Moroccan cities, including Marrakech and Tangiers, although the Rabat airport serves mostly local flights. From London, the choice is between British Airways, operated by Air Gibraltar and Royal Air Maroc. Business class airfare from London to Casablanca is about £923 plus tax, and an economy fare runs from £300 to £612.

Local transport

Royal Air Maroc and local trains can take you efficiently from one city to another. Driving from Casablanca to Marrakech is a joy but watch for many careless drivers on the road and preferably make the trip during daylight. In town, the "grands taxis" are the most comfortable but they'll charge several times more than the more rugged "petits taxis." Have a precise address and ask the hotel to give the driver directions, or else you might be consistently late for appointments.

Hotels

Morocco's hotels, have improved in recent years. In Casablanca, the best by far is the Royal Mansour, with functional and nicely decorated rooms, ceramic tiled bathrooms and excellent service. In Rabat, the Hilton (formerly Hyatt), the favourite for business travellers, is comfortable but on the outskirts of the city, while the Tour Hassan is central and has a charming historical feel. Marrakech boasts many lovely hotels, the most famous of which is the Mamounia. A memorable day can be spent on the pool by the orange grove listening to classical tunes from an orchestra.

Eating out

In Rabat, the best Moroccan cuisine is at Dinarjat, in the heart of the Medina (old town), serving traditional couscous and tajine dishes. For more French style dining, Rabat considers l'Entrecote the best for steaks and le Goelan for fish. In Casablanca, La Bretagne is an excellent fish restaurant on the shore. Le Cabestan offers good continental cuisine and Le Tajine downtown is the favourite for Moroccan delicacies. Restaurants in Marrakech have a magical, romantic atmosphere. Often found in traditional houses, in the old town, among the best are Yacout, known as the city's "grand luxe", and Dar Mounia.

KENYA/UGANDA

By Michela Wrong

Nairobi was once glowingly described as the "City in the Sun", but there has been such a steep deterioration in the past 10 years that the appellation now looks distinctly inappropriate. A spiralling crime rate means it is no longer safe to walk the streets at night and even in the daytime muggings and car hijackings are frequent. With the cities becoming increasingly unhappy places, the real appeal lies in the magnificent game parks – Masai Mara, Amboseli, Tsavo – the stunning Rift Valley scenery and coral-fringed coast. While two recent rounds of ethnic killing had little direct impact on visitors, they halved bookings for Kenya's low-budget, beach-and-safari packages. For those ready to buck the trend, the advantage is that hotels and lodges now offer really competitive cut-price deals and enthusiastic service. A faltering economy is also weakening the shilling, whose strength had deterred some visitors.

Visas

Visas are required by visitors from the US, Japan, and most European countries, including the UK, but not Norway, Sweden, Denmark, Spain, Italy, Ireland or Germany.

Airlines

Nairobi, a key regional transit point, is one of the easiest African capitals to fly to. But while Jomo Kenyatta airport offers a refreshingly hassle-free experience compared with many African rivals, it has failed to become the cosmopolitan international hub envisaged by local planners. Business lounges are cramped, there are no hotels near the airport, duty free is unimaginative and the environment shabby. Since its privatisation, Kenya Airways has made great strides in improving services, although domestic flights are still discouragingly expensive. The same applies to flights to neighbouring Zanzibar, Tanzania and Uganda, which would otherwise provide a natural extension to any Kenyan holiday. Airport tax on international flights is $20.

Local transport

Given the cramped conditions on Kenya's creaking buses and matatu minivans, private taxis or car hire, neither of them particularly cheap, are the only practical alternatives. If driving yourself, remember that Kenyan drivers are terrible – many buy their licences from corrupt policemen rather than take the test, few have fully functioning brakes and lights – and the country has one of the highest accident death rates in the world. Drive protectively. The national rail network laid by the British now works at a fraction of its original capacity and while the overnight train trip to Mombasa is still very picturesque, it's not reliable.

Hotels

Nairobi is one of the best-provided African cities in terms of hotels. At the top end are the Serena, the Norfolk – part of the city's colonial history – and the Hilton. Slightly less expensive are the Intercontinental and Grand Regency and there is a range of moderately priced hotels: the Fairview, Stanley, Six-Eighty and Hurlingham. Unlike some African countries, only just learning to exploit their natural attractions, Kenya is highly commercialised, with most key beauty-spots boasting a choice of western-standard lodgings. It is worth shopping around before booking – the crisis in the tourist industry is so acute many hotels will strike on-the-spot deals and offer big discounts just to keep occupancy rates up.

Eating out

British cooking has left deep scars on Kenyan cuisine and many of the hotels and lodges serve food and drinks of truly boarding school ghastliness. But break out of their grip and there's a wide range of cuisines on offer: Indian, Italian, French, Thai, Japanese, Ethiopian, seafood. The Kenyan speciality, simple but always delicious, is "nyama choma" – barbecued meat eaten with bare hands and washed down with plenty of Tusker beer. The upmarket version of this is on offer at the well-known Carnivore, where you can sample ostrich, giraffe, zebra and antelope before deciding that plain beef is best after all.

■ UGANDA

Once a symbol of African savagery, Uganda has become the west's favourite son. Kampala is small and manageable, its residents genuinely friendly and violent street crime noticeable by its absence. The worm in this apple is provided by the rising number of grenade and bomb attacks, apparently the work of guerrilla movements opposed to President Yoweri Museveni's leadership. A booming economy and an expanding privatisation programme have also been at the price of a surge in corruption and a spate of power cuts and interrupted telephone links as the infrastructure struggles to keep up. But there's nonetheless a tangible energy in the air and a "can-do" approach on the part of the inhabitants that makes the capital one of the most pleasant on the continent to visit.

No longer the 'City of the Sun': Nairobi's crime rate has soared Liz Gilbert/Sygma

Visas

Not required for citizens of EU, US, Australia, New Zealand, Japan, Canada, Switzerland, Scandinavia, Taiwan, Hong Kong, South Korea, Saudi Arabia, Kuwait, United Arab Emirates. A return or onward ticket is required.

Airlines

Entebbe cannot yet rival Nairobi in terms of sheer quantity of air links, but it's trying hard to catch up. British Airways flies direct to Entebbe, and other airlines have increased their services. The airport, site of the historic Israeli raid, is modern, comfortable and offers excellent duty free goods. If its location, a 45-minute drive from Kampala, is inconvenient, there are at least a couple of nearby lakeside hotels to stay in before going on to Rwanda or elsewhere. Airport tax is $20 on international flights.

Local transport

Because Kampala is such a small city, many offices are in walking distance. Otherwise, private taxis are on hire for between $40 and $60 a day. Peak-hour jams are a sign of the city's expansion, so time spent sitting in traffic is a new characteristic of life in Uganda. On trips out of town – to the rehabilitated Queen Elizabeth, Murchison Falls or Bwindi national parks for example – it is best to hire a four-wheel drive vehicle, as floods have undermined already fragile roads.

Hotels

Dominated by a few key operators, Kampala's hotel business offers some of Africa's most expensive and least efficient lodgings, starting with the overpriced Sheraton and gloomy Grand Imperial, both blighted by wall-to-wall musical entertainment, desultory service and indifferent food. Between these and the kind of unpretentious lodgings where international telephone lines and air conditioning are out of reach, there is little apart from the Nile and Fairway to choose from. At the lower end, the Speke, Shanghai and Athina Club offer good value for money.

Eating out

As a city with a large Asian population, Kampala has a rich variety of Indian restaurants: the Haandi, Chaat House and Maharajah all offer good fare. Chinese cuisine is available at Fang-Fang and the Shanghai, while Crocodiles and 7CooperRoad, situated in the same compound, offer excellent continental cooking.

Getting around: Africa

Neglect proves an advantage

Michela Wrong discovers the joys of the Murchison Falls, whose lack of exploitation has allowed a balanced ecosystem to develop

Perched unobtrusively in a tree, the ranger was scouring the horizon through a pair of binoculars. So were we, but our respective prey differed.

We were searching the rolling savannah of the Murchison Falls National Park for one of the "Big Five" – the large mammals traditionally regarded as key components of any successful game drive. He was looking for something rather more sinister: members of the guerrilla groups operating in north-west Uganda.

His quiet presence was a reminder of the security issues that continue to hold the tourism industry in this part of Africa to ransom.

As with Uganda's other game parks, Murchison Falls was devastated by the political turbulence of the 1970s and 1980s, when Idi Amin's retreating army burnt and looted lodges and offices in a cynical razed-earth policy, and poaching ran out of control.

The park's remarkable recovery has seen such new arrivals as the Sarova Lodge springing up next to the grassed-over ruins left behind by Amin's men. However, this depends on its ability to keep in check the Sudanese-backed rebel movements which are challenging the authority of the government in Kampala.

That the effort is worth making is not in doubt. Neglect can have beneficial side-effects. In the case of Murchison Falls, the interim period allowed a more balanced ecosystem to develop in an area in danger of being over-grazed by elephant herds.

The result has been one of the continent's most under-exploited and enchanting of game parks. Few experiences can compare with a night dip in the open-air swimming pool at the Nile Safari tented camp, looking out over a tranquil bend in the river.

Here, after a cool gin and tonic served on the verandah with a bowl of freshly-roasted peanuts, you can float alongside a few errant frogs.

For any city dweller, a landscape in which the background noise consists of hippo snorts, the metallic whirr of crickets and the liquid burblings of tree toads, rather than the steady roar of traffic, is a delight.

In daytime the river really comes to life. A cruise up to Murchison Falls, where the Victoria Nile explodes through a six-metre gorge like an unwatched pressure cooker, takes visitors past family after family of hippos coyly draped in delicate mantles of water hyacinth.

Approaching quietly from the water, you can surprise bull elephants coming down for a drink, buffaloes wallowing in the cool mud and Colobus monkeys hunting for fruit.

The boat's captain will occasionally deliberately ram the bank to startle the crocodiles sunning themselves there. Not a practice approved by ecologists, no doubt, but the impact of seeing these three-metre giants gliding menacingly towards the water within inches of your seat is too exciting for most passengers to question the practice.

But why do not more people make the most of Uganda's natural beauty, especially given the discounts offered at most venues, desperately trying to boost the country's rather unimpressive annual total of 200,000 visitors.

The trip back to Kampala is a salutary reminder of exactly why these game parks remain known to relatively few, despite the capital's thriving economy and Uganda's recently-acquired reputation as an African basket-case made good.

Six hours of hard driving – the first part of it along teeth-shaking dirt tracks prone to frequent flooding and tse-tse fly attack – and the benefits of the stress-free days on the river swiftly begin to fade.

There is talk of introducing a helicopter to allow guests to skim over the worst of the track, and multiplying the charter flights from Entebbe, which unfortunately only marginally reduce the time taken to get to Murchison Falls. And, as every Ugandan knows, President Yoweri Museveni is obsessed with improving the quality of the country's roads.

But until some of those steps are taken, Murchison Falls, like so much in Africa, is likely to remain a destination for the well-briefed connoisseur.

A stay at the Nile Safari Camp in Murchison Falls can be organised by telephoning 256 41 258273 or 245092. For Sarova's Paraa Lodge try 256 41 251209 or 251211. Both can be booked through the Phoenix travel company in Kampala on 256 41 236096.

One that got away: the young bull elephants first taken to stock Pilanesberg killed 13 white rhinoceroses before older bulls were brought in to set an example *Roger de la Harpe*

Recreating a wilderness

Pilanesberg National Park offers the same spectacle as larger reserves without the need to travel far, says **Victor Mallet**

Recreating nature as if industrial man had never walked the earth is not an easy task. But the managers of Pilanesberg National Park, only two hours by car from Johannesburg, South Africa's commercial capital, have attempted to do just that.

Take the lions that were transported to the park in 1993. It was not as though any old lions would do. Botswana lions had a taste for cattle, which might have alienated the villagers who live around the park.

Lions from the Kruger National Park on South Africa's eastern border, it was feared, might attack people because some of them had eaten Mozambican refugees fleeing into South Africa. And some of these animals had the feline version of Aids.

So Pilanesberg chose Namibian lions. "They were never exposed to domestic stock. They never had any history of having killed anyone. They were a safe bet," says Ephraim Morei of the North West Parks Board, Pilanesberg's community liaison officer. "We didn't want to take the chance of picking up lions that have tasted human flesh."

Persuading elephants to behave as elephants should was equally difficult. The young bull elephants first taken to stock Pilanesberg – it was easier to carry the lighter youngsters – behaved like delinquent teenagers and began killing rhinoceroses. Thirteen white rhinos died.

Pilanesberg's wardens guessed that the problem was the elephants' lack of mature "role models" to look up to. Six older bulls have now been brought from Kruger in a specially designed truck in an attempt to discipline the wayward youngsters.

"So far things are calm," says Mr Morei. "We haven't had any incident of rhinos being attacked. It looks as if it works, but it's a little early for us to say."

Pilanesberg today looks like an untouched part of the African wild, but it took money and effort to make it that way.

Before the 58,000-hectare park was established in 1979 in what was then the nominally independent homeland of Bophuthatswana there was only limited wildlife in the area, including leopards, baboons, warthogs and kudu.

Then came Operation Genesis. In one of the world's largest translocations of game, about 8,000 animals were transported to Pilanesberg from elsewhere in southern Africa.

By then, thousands of villagers and a few white commercial farmers had been moved out of what is now the park.

A building that once housed a police station and magistrate's court has become a café at the centre of the park, with a terrace from which animals can be seen grazing on the plains or drinking at a waterhole.

But almost every other sign of man's presence is being systematically eradicated. Alien plants, including eucalyptus trees and prickly pears, are uprooted.

Alien animals – domestic cats turned wild are the best survivors – are eliminated. Workers build makeshift terraces of rocks to restore parts of the land left bare by past over-grazing and erosion.

The result is a success, not just for tourism but also for conservation. A visitor to Johannesburg with a day or two to spare can visit the park and thereby avoid the risk of malaria and the long drive to Kruger.

And it is possible to camp or stay the night in one of Pilanesberg's chalets for a modest sum.

For the casual visitor the wildlife is scarcely less spectacular than in Kruger, and there is no feeling of the overcrowding experienced in the smaller commercial game reserves nearer Johannesburg.

In the space of a few hours, one can easily see elephants smashing down trees for food, hippos wallowing, rhinos taking a cool mud bath, giraffes eating the leaves of thorn trees and zebras and an array of antelopes grazing.

Nor should one forget the smaller pleasures of the African veld – a green and yellow chameleon swaying slowly across the road, the strawberry and lemon wings of a flying locust, the sun on the rocks and the secretary birds strutting across the grasslands. More than 360 species of bird have been recorded in the park.

More than 200,000 people visit Pilanesberg each year, and it benefits from its proximity to Sun City, the gambling, golfing and holiday resort.

But the national park contributes to conservation as well as tourism. Its buffalo are prized for their freedom from tuberculosis. The rare black rhino has bred in the park and surplus animals of various species have been sent to stock a new game reserve at Madikwe on the Botswana border.

"We are very, very fortunate here," says Mr Morei. "We never lost even a single rhino as a result of poaching."

Keeping the animals as nature intended behind the park's 110-kilometre fence requires careful management. One specialist, for example, monitors the 28 lions to ensure that fathers do not mate with daughters.

And the park wardens, rather than packing Pilanesberg to the limit, have decided to keep the number of animals at two-thirds of the area's capacity so that they have a safety margin in time of drought. The need for culling has declined since the introduction of the lions, although hunting is permitted in the northern part of the park.

Pilanesberg is much smaller than Kruger, Namibia's Etosha pan or the Okavango delta in Botswana. But on one of its dirt roads amid the hills it is possible, only a short drive from South Africa's industrial heartland, to get a taste of those open spaces further north and to imagine what the continent was like a millennium ago.

Vast landscapes and personalised viewing

Fancy bungee jumping over the Victoria Falls? Then this could be for you, says **Tony Hawkins**

Zimbabwe is considered one of the top game-viewing destinations in Africa and one of the safest.

It is a land of vast landscapes with beautiful wilderness areas. National Parks are relatively inexpensive whereas the more upmarket safari lodges in unique locations offer personalised game-viewing with specialist guides.

The most famous attraction is Victoria Falls, which now also offers the world's wildest white water rafting and one of its highest bungee jumps off the railway bridge spanning the gorge between Zimbabwe and Zambia.

Other activity pursuits include canoeing on the Zambezi, bush walking, horse trails, mountain climbing in the Eastern Highlands and tiger fishing on the waters Lake Kariba with its magnificent sunsets and lakeside game-viewing.

For a more unusual experience try elephant safaris, balloon flights or a luxurious steam rail safari reminiscent of a bygone era.

Finally there are the ancient ruins of Great Zimbabwe and the granite-monoliths and balancing rocks of Matobo National Park, where you will find the world's highest concentration of pre-historic rock paintings and Cecil Rhodes' grave.

Nearby is Zimbabwe's second city, Bulawayo, once the power base of the Ndebele kings and considered by many visitors to have more character than Harare, the capital and seat of government.

Harare consists of a combination of modern skyscrapers which rise up beside a variety of markets and art galleries, many with collections of the world-famous Shona stone sculptures.

Visitors from most European, North American and African countries do not require visas, but it is advisable to check before travelling. Travellers are advised to take malaria tablets if visiting low-lying areas, which include most game-viewing destinations.

Yellow fever inoculations are required only if coming from an infected area.

Most regional airlines and many international airlines fly into Harare, including Air France, British Airways, KLM, Lufthansa, Swissair, Qantas, Air Mauritius, South African Airways, Ghana Airways and Egypt Air.

There is no airport bus, so travellers should either ask for hotel transfers or take a taxi (approximately US$5) to the city centre. Public transport in the cities is not good so taxis are the safest bet.

There are daily flights and luxury coaches operating between the main holiday resorts and rail – first class is recommended – between Mutare, Harare, Bulawayo and Victoria Falls.

All pockets are catered for from backpackers' lodgings to guest lodges and international hotels such as Holiday Inn, Great Western and Sheraton. Many businessmen prefer the centrally located Meikles Hotel in Harare.

Outside the capital the colonial-style Victoria Falls Hotel, Troutbeck Inn in the Nyanga mountains, Leopard Rock – the golfer's choice – in the Vumba mountains and Bumi Hills at Lake Kariba are now facing competition from a fast-growing safari lodge sector. International credit cards are widely accepted.

Harare and to a lesser extent Bulawayo, offer a good selection of mainly Portuguese, Italian, Greek and Indian restaurants offering good, reasonably-priced food in a casual atmosphere.

A favourite in landlocked Zimbabwe is the Fishmonger, which flies fresh line fish from Cape Town. For a more expensive evening in Harare try Imba Matombo, 22 Victoria Street, Barkers or Squabbles.

Hotels

Equal but with different needs

Hotels and airlines could do more for their female customers, says **Catherine Chetwynd**

Women represent one third of business travellers – a large minority – yet many are still not satisfied with way they are treated by hotels and airlines. Receptionists often hand over a key and announce the room number. Female guests may be given hotel rooms in dark corridors, or be made to feel uncomfortable in hotel restaurants, when their male guests are presented with the wine list and bill.

Personal safety, too, is still a problem. According to recent research by Company Barclaycard, 14 per cent of the women polled quoted security as one of the three most important factors when choosing accommodation, and 5 per cent had the experience of their room being broken into during a hotel stay. Car parks and video surveillance in public areas are singled out by many women as areas in need of safety improvements.

Some hotel groups are making efforts, however, to meet the requirements of women guests. Renaissance and Choice groups both reserve spaces near the hotel entrance for women. Copthorne has a policy of escorting female travellers to and from its less well lit car parks where possible.

Celia Jennings, director of property adviser, Baring, Houston and Saunders, hates having to park away from a hotel and carry her luggage some distance to check in. "I have attended conferences at the Grand Hotel in Brighton, where the car park is small, and they have always been sympathetic," she says. "Making life easier on arrival and departure is very important."

Nonetheless, women largely want to be treated with the same respect as their male counterparts, although some of their requirements are different. Says Peter Taylor, UK regional director of Millennium and Copthorne Hotels: "We treat all our guests – both male and female – the same, while being aware of the female business traveller's individual needs." The group has looked at the issue broadly and one policy it has put into effect is to use female staff when a women traveller asks for room service.

Research by Hyatt Hotels shows female travellers are more likely to want to eat in their room but do not always like the intrusion of formal room service; prefer to iron their clothes rather than rely on valet service; and like to spend spare time relaxing in their room, taking advantage of hotel video libraries, or using health facilities.

Many women travellers do not like women-only floors, which can be a signpost to men with dubious intentions. However, executive floors are popular, particularly as they are often only accessible via a special key for the lift. Hyatt and Inter-Continental hotels both have experience of this.

Lee Sigler, European marketing manager of Sun Microsystems, says it is not surprising women choose to eat in their rooms: "Women walk alone into restaurants and are ignored. It has happened to me worldwide. You have to be loud to be noticed but you should not have to promise to be an embarrassment to get good service."

Hotels are not alone in marginalising women travellers. Independent management consultant, Julia Colclough, has been travelling for the past 25 years and was recently voted Best Female Business Traveller in this year's Company Barclaycard awards.

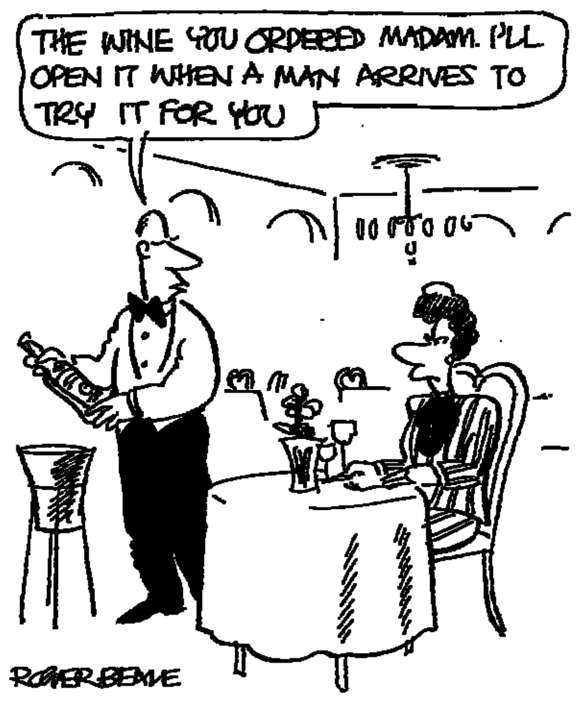
"Women are still discriminated against, and often by other women. On one flight, I asked a British Airways stewardess if she would hang up my jacket. First, she gathered up all the men's jackets, then returned to me with a grin and said: 'Sorry, there's no more room, I'll put it above your seat for you'."

BA is aware that women's needs are different and two issues that crop up regularly that divide the sexes are loos and bars. "A dedicated bar area in the cabin only motivates men, not women," says Club World brand manager Alison Wheal.

"However, women have often requested separate loos for men and women, although we would need to do operational research to know whether we could meet that need. But it is feasible," she adds.

There are, however, organisations dedicated to easing the stresses of women travellers. In the UK the Global Network (0171-722 9454) provides a range of services from location information to contacts at the intended destination. Registration costs £25 per person, membership £100 a year.

City Women's Network (01895-272178), with a membership of women professionals, provides a forum for discussion and, as a member of the International Alliance, can also give members contacts worldwide, for advice, and often the opportunity to meet people while travelling.



EVENTS

JUNE			
Jun 1-2	M&A negotiator conference	London	+44 (0)1892 537474
Jun 1-2	Webprd '98, Internet users' exhibition	London	+44 (0)1923 [illegible]
Jun 1-3	Imaging, science & ecology	Birmingham	+44 (0)171 486 [illegible]
Jun 1-4	Royal town planning institute conference	Bournemouth	+44 (0)171 636 9107
Jun 2-4	Solicitors & legal office conference	London	+44 (0)181 742 3399
Jun 2-4	Warehousing and logistics exhibition	Stoneleigh	+44 (0)1322 660070
Jun 2-4	Int'l chemical & process engineering show	Birmingham	+44 (0)181 910 7873
Jun 2-5	BroadcastAsia	Singapore	+44 (0)171 862 2000
Jun 2-5	CommunicAsia	Singapore	+44 (0)171 862 2000
Jun 2-5	NetworkAsia	Singapore	+44 (0)171 862 2000
Jun 2-5	M+M int'l trade clothing and labour safety fair	Budapest	+36 12636006
Jun 2-5	Int'l electronics industry show	Paris	+33 147565000
Jun 2-5	Int'l symposium auto. technology & automation	Düsseldorf	+44 (0)171 [illegible]
Jun 3-4	Electronics forum	Manchester	+44 (0)1799 528292
Jun 3-5	World biosensors conference	Berlin	+44 (0)1865 843691
Jun 4	Germany travel show	London	+44 (0)1494 791129
Jun 4-6	Emergency services exhibition	Tallinn	+372 6385770
Jun 4-6	Financial markets association conference	Geneva	+41 227611111
Jun 4-7	Transport '98	Oslo	+47 22439100
Jun 5-6	Engineering recruitment show	London	+44 (0)171 973 6401
Jun 5-8	Scandinavian rheumatology congress	Aarhus	+44 (0)171 242 3313
Jun 8-10	Euro FM-IMFA facilities management conference	Maastricht	+31 433838383
Jun 8-10	British resorts annual conference	Bournemouth	+44 (0)1512 934 2286
Jun 9-10	Telebusiness '98 computer technology	London	+44 (0)181 201 9898
Jun 9-11	Telebusiness '98, exhibition	London	+44 (0)181 201 9898
Jun 9-12	Environmental technologies trade fair	Bratislava	+42 7801111
Jun 9-12	Int'l town planning & environment week	Madrid	+34 17225000
Jun 9-12	Components & parts subcontracting fair	Leipzig	+49 211901910
Jun 9-12	Agricultural machinery exhibition	Kiev	+380 572887384
Jun 10	Software solutions, travel & tourism exhibition	London	+44 (0)1273 838800
Jun 10-11	International logistics conference	Brussels	+32 5452100
Jun 10-11	Print, design & reprographics exhibition	Norwich	+44 (0)1296 434381
Jun 10-12	Human identification, European conference	Innsbruck	+43 5125360
Jun 10-12	European equity traders convention	Luxembourg	+352 4779981
Jun 11-12	Buying & selling a company strategies	London	+44 (0)1892 537474
Jun 15-16	FT world aluminium conference	London	+44 (0)171 896 2626
Jun 15-16	28th top management forum	London	+32 25432100
Jun 16-17	European vehicle electronic systems conference	Coventry	+44 (0)137 236 7029
Jun 16-17	Ucas education convention	Sheffield	+44 (0)1242 544883
Jun 16-18	Logistics conference & exhibition	Birmingham	+44 (0)1737 768611
Jun 16-18	FIT '98, Architecture & design exhibition	London	+44 (0)171 486 1951
Jun 17-18	FT film finance conference	London	+44 (0)171 896 2626
Jun 17-18	Government computing conference & exhibition	London	+44 (0)171 608 0900
Jun 17-18	Business intelligence exhibition	London	+44 (0)181 879 3366
Jun 17-19	Printed board exhibition	Modena	+39 51282111
Jun 18-19	European derivatives exhibition	London	+44 (0)171 827 9977
Jun 19-20	Women in business exhibition	London	+44 (0)171 282 3382
Jun 20	National nutrition education conference	Southampton	+44 (0)171 404 6504
Jun 21-26	European drug metabolism conference	Copenhagen	+45 39460500
Jun 22-23	FT world gold conference	Barcelona	+44 (0)171 896 2626
Jun 22-24	East European CFO conference	Vienna	+44 (0)171 830 1000
Jun 22-26	Int'l health & safety at work, trade fair	Moscow	+49 211456002
Jun 23-25	CT expo, computer telephony	Birmingham	+44 (0)181 742 2828
Jun 23-25	Feed & grain Europe'98	Vienna	+44 (0)1923 228577
Jun 23-25	Undersea defence technology conference	London	+44 (0)1322 660070
Jun 23-25	Networks telecom '98	Birmingham	+44 (0)181 742 2828
Jun 24-25	Computer & office 2000 - IT & office systems	Southampton	+44 (0)1703 232334
Jun 24-25	Meetings & incentive travel show	London	+44 (0)1342 824044
Jun 25-28	Security technology & services fair	Istanbul	+90 2123100
Jun 26-28	Personal development show	London	+44 (0)181 332 0044
Jun 27-28	Franchise exhibition	Glasgow	+44 (0)171 727 7380
Jun 27-28	Self-build homes exhibition	Brighton	+44 (0)171 837 8727
Jun 28-1	Int'l conference on protein stabilisation	Leeds	+44 (0)113 233 3444
Jun 28-3	World Aids conference & exhibition	Geneva	+41 22761111
Jun 30	Office roadshow	London	+44 (0)1992 651514
Jun 30-1	Competitive collections seminar & exhibition	Basingstoke	+44 (0)1483 574422
Jun 30-2	World logistics conference & exhibition	London	+44 (0)1494 678000
Jun 30-3	Company car in action	Millbrook	+44 (0)137 378 8611
JULY			
Jul 1-2	Graduate recruitment fair	London	+44 (0)171 554 4500
Jul 1-2	Energy, safety, security, handling exhibition	Bristol	+44 (0)1296 434381
Jul 6-7	FT commercial property conference	London	+44 (0)171 896 2625
Jul 6-7	Biotechnology in agriculture conference	London	+44 (0)171 887 4348
Jul 6-10	Lifestyle & Fashion exhibition	Moscow	+7 0952686671
Jul 7-8	Total publishing	London	+44 (0)181 565 4200
Jul 7-9	Microscopy conference & exhibition	London	+44 (0)1865 248768
Jul 7-9	World congress on particle technology	Brighton	+44 (0)1788 578214
Jul 8-9	Print, design & reprographics exhibition	Bristol	+44 (0)1296 434381
Jul 23-24	Fire engineers annual conference & exhibition	Edinburgh	+44 (0)116 255 3654
AUGUST			
Aug 9-12	Trend & innovation fair	Bern	+41 313313724
Aug 15-23	Consumer goods exhibition	Dusseldorf	+49 211458001
Aug 18	International congress of mathematics	Berlin	+49 3030380
Aug 18-22	Int'l [illegible] medicine congress	Copenhagen	+45 39460500
Aug 19-22	Int'l agricultural & food exhibition	Debrecen	+36 52438011
Aug 20-23	Outdoor sports trade fair	Friedrichshafen	+49 75417080
Aug 20-23	Youth fair	Leipzig	+44 (0)181 953 1688
Aug 25-27	IT expo	Athens	+48 486908500
Aug 25-27	First-year students fair	Maastricht	+31 433838383
Aug 26-29	Woodworking machinery exhibition	Gothenburg	+46 31109100
Aug 26-29	European society of cardiology congress	Vienna	+33 4929476
Aug 29-31	Clocks, watches & jewellery trade fair	Leipzig	+44 (0)181 953 1688
Aug 27-30	Festival of fine food & drinks	Budapest	+36 11171933
Aug 27-31	Int'l horticultural exhibition	Tallinn	43 2272624030
SEPTEMBER			
Sep 1-2	Direct selling & business opportunities	Paris	+33 14756580[illegible]
Sep 1-4	Swiss automation week	Basel	+41 616862020
Sep 2-6	Int'l fishery, water transport & ecology	Tulcea	+40 1223[illegible]
Sep 3-4	FT world aerospace conference	London	+44 (0)171 [illegible]
Sep 3-5	Specialised technical equipment exhibition	Essen	+49 20172[illegible]
Sep 3-10	Motor vehicle & transport exhibition	Hanover	+44 (0)181 688 [illegible]
Sep 6-13	World gastroenterology conference	Vienna	+49 211 [illegible]
Sep 7-9	European licensing fair	Birmingham	+44 (0)181 855 [illegible]
Sep 7-9	Annual charity accountants conference	Manchester	+44 (0)171 288 [illegible]
Sep 8-9	Quality in manufacturing exhibition	Birmingham	+44 (0)1322 [illegible]
Sep 8-10	Scottish [illegible] week	Glasgow	+44 (0)1737 [illegible]
Sep 8-10	Documentation management software trade fair	Essen	+49 2017[illegible]
Sep 9-13	Consumer electronics & appliances show	Vienna	[illegible]
Sep 8-11	Int'l catering trade fair	Gothenburg	+46 31[illegible]
Sep 10-12	Workplace safety & accident prevention	Modena	+31 [illegible]
Sep 12-13	Turnkey building & real estate, trade fair	De Haan-Kortrijk	+32 [illegible]
Sep 14-16	Environmental health & exhibition	Harrogate	+44 (0)171 [illegible]
Sep 15-17	Hardware & software exhibition	Wiesbaden	+49 [illegible]
Sep 15-18	International advertising fair	Poznan	+48 [illegible]
Sep 16-17	Automotive security conference & exhibition	Birmingham	+44 (0)1372 [illegible]
Sep 16-17	Handling & storage solutions show	Telford	+44 (0)1342 [illegible]
Sep 16-18	Professional reprographics show	Paris	+33 [illegible]
Sep 22-23	Business to business fair	Maastricht	+31 [illegible]
Sep 22-25	Local authority technologies exhibition	Modena	+39 [illegible]
Sep 22-25	Industrial cleaning exhibition	Oslo	+47 22[illegible]
Sep 23-25	Scandinavian travel market & business travel	Stockholm	+46 8749[illegible]
Sep 23-25	Int'l forestry machinery exhibition	Richmond, Yorks	+44 (0)1668 [illegible]
Sep 23-25	Networks Telecom '98	Stockholm	+46 [illegible]
Sep 23-25	Oil & gas trade exhibition	Warsaw	+48 22[illegible]
Sep 23-25	Int'l purchasing and supply week	London	+32 [illegible]
Sep 24-25	FT stainless steel conference	Pittsburgh	+44 (0)171 [illegible]
Sep 25-26	Engineering recruitment show	Birmingham	+44 (0)171 [illegible]
Sep 29-30	Pumps & systems	Telford	+44 (0)1732 [illegible]
Sep 29-4	Motor show	Budapest	+36 1263[illegible]

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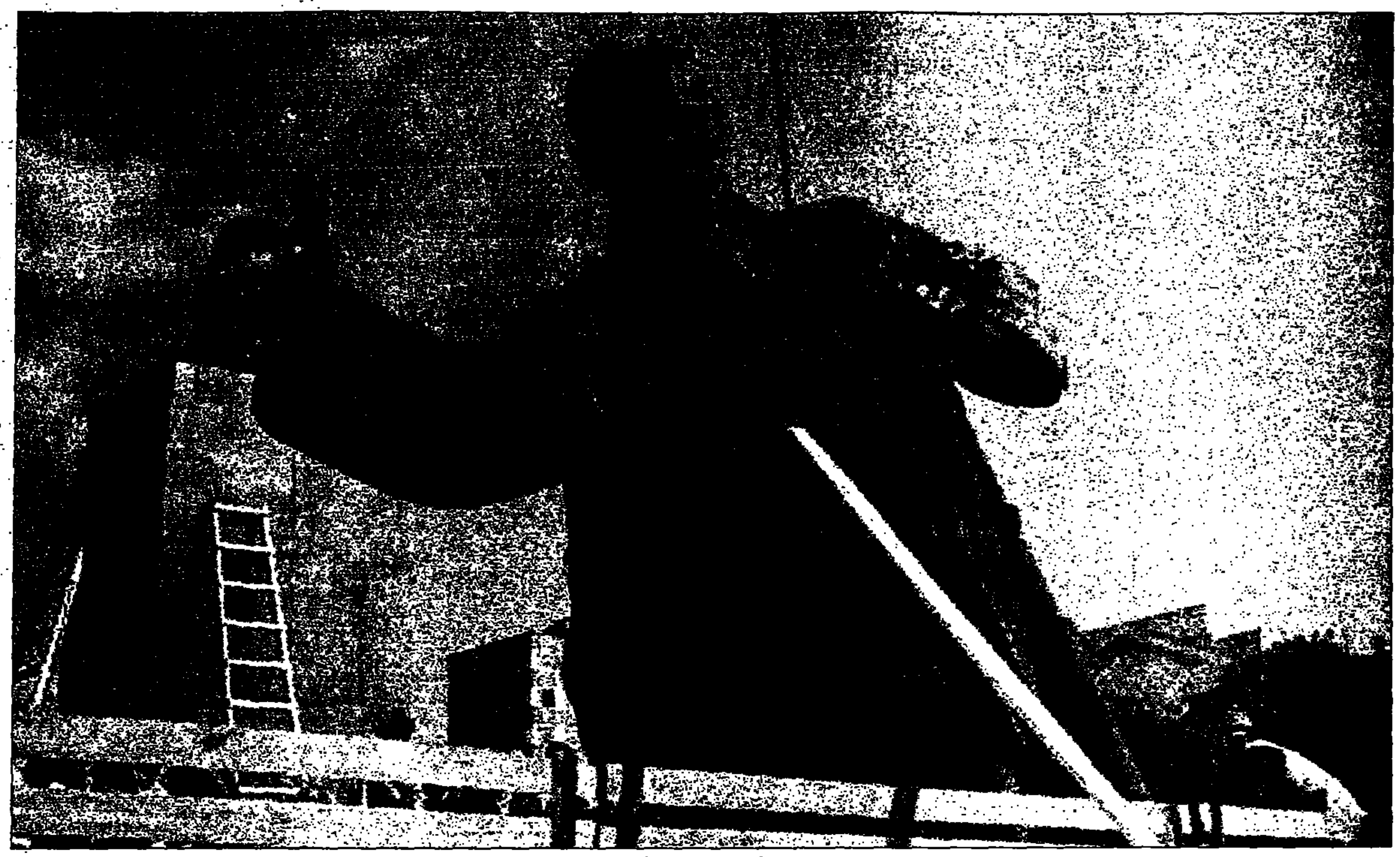
Hotels

Vitality comes to Vilnius

Michael Thompson-Noel finds the Lithuanian capital showing signs of new life after years under the Soviet yoke



Goodbye to all that: a statue of Lenin is carted away in 1991 after Lithuania's communist party is banned by parliament AP

Some business travellers do not mind roughing it. Poor transport. Seedy hotels. Pestiferous sheets. Bad food. It is all the same to them. They are happy just to travel, so long as they accomplish their mission.

Other travellers, however, appreciate comfort and efficiency, and are relieved to discover that the place they are visiting can accommodate them in the style to which they are accustomed. This is why there are so many chains of business hotels, offering – even in relatively desolate places – reliable, standardised services.

Vilnius, capital of Lithuania, used to be a desolate spot, following its long years under the Soviet yoke. But it is not desolate now. Lithuania was liberated from Soviet rule in 1990, and has slowly come alive again. As has Vilnius.

In the early 1990s, Vilnius looked ramshackle and sombre. It was as quiet as the grave. There seemed to be hardly any people.

It has not yet been transformed, but it is livelier and more populous than it used to be. The Old Town, at its heart, is particularly striking: well lighted, almost elegant and looking busier.

And Vilnius now has its first western-style, business-oriented, chain hotel: the 61-room Radisson SAS Astorija Hotel Vilnius, to give it its full name, which is Radisson's second hotel in the Baltics. Its property in Riga, Latvia, opened in 1996.

The Astorija is in Vilnius's main town square, in a building that opened as a hotel in 1901. Radisson's plan is to add another 90 rooms within two years, as western companies do more and more business with Lithuania's emergent – though by no means bashful – private sector.

The Astorija is just what you would hope for in a smallish, centrally located business hotel. The rooms have cable TV, hairdryer, trouser press and a safe. The food in the brasserie is good. There are conference rooms for up to 40 people. Communications with the outside world are excellent. All but two of the staff (one, the executive chef, who used to cook for the Queen of Denmark) are Lithuanian.

Half the guests at the Astorija are Scandinavian business visitors, though a few well-heeled Russians can also be seen, which indicates that relations between Mother Russia and its former vassal state are not entirely ruptured.

When I asked one of the hotel's directors about the Russians, he said: "Ah, yes, those Russians. Very nice people. Very quiet. Sometimes they come for the weekend. They arrive in big cars, eat expensively – and always pay cash. I do not know who they are or what their business is, but they wear furry clothes and sports shoes."

The Astorija is managed by Radisson SAS Hotels Worldwide, a subsidiary of the Stockholm-based Scandinavian Airlines System (SAS), which has 94 hotels in 26 countries in Europe, the Middle East and north Africa. Its target is to add 100 more properties by 2000 under the Radisson SAS brand, including two in Asia. At present the group has 15 hotels in various stages of construction.

The Astorija is owned jointly by the Vilnius municipality and by a private Swedish investment fund. At a party in Vilnius to mark the Astorija's opening, I asked one of the Radisson high-ups whether the group contemplated owning, managing, leasing or franchising other hotels in eastern Europe in the next decade – in the light of the anticipated growth in trade and investment between eastern and western Europe, and between eastern Europe and elsewhere.

"Very few," he replied. "It is not easy to operate here. What is needed is a fundamental change in investor attitudes" – meaning, he explained, that business partners in eastern Europe often wanted to take profits too swiftly. "They have not yet realised that serious investment means recovering your money over a number of years. The timeframe must be reasonable. They want their money quickly. But things don't work like that."

This sentiment was echoed by a Canadian businesswoman I spoke to at the Astorija's opening, who trades in linens such as draperies, duvet covers, tablecloths.

"I would like to do a lot more business in Lithuania," she said. "But things are pretty tough. There is too much hustling, too much greed. My Lithuanian suppliers are capable of extremely fine work, but they are in danger of pricing themselves out of the market. There are plenty of other places I can go to for merchandise."

Nevertheless, Lithuania is stirring. And Vilnius is growing livelier. Nor is the Astorija the only show in town.

Other upmarket, business-class hotels in Vilnius or close at hand (some of which have health spas/saunas/pools, as well as conference facilities) include the Villon, Sarunas, Neringa, City Park, Mabre Residence (a renovated, former Russian Orthodox monastery), Centrum, Ida Basar (modern, German-style apartments in the Old Town), Narutis (said to be a favourite of visiting diplomats), Naujasis Vilnius and Stikliai.

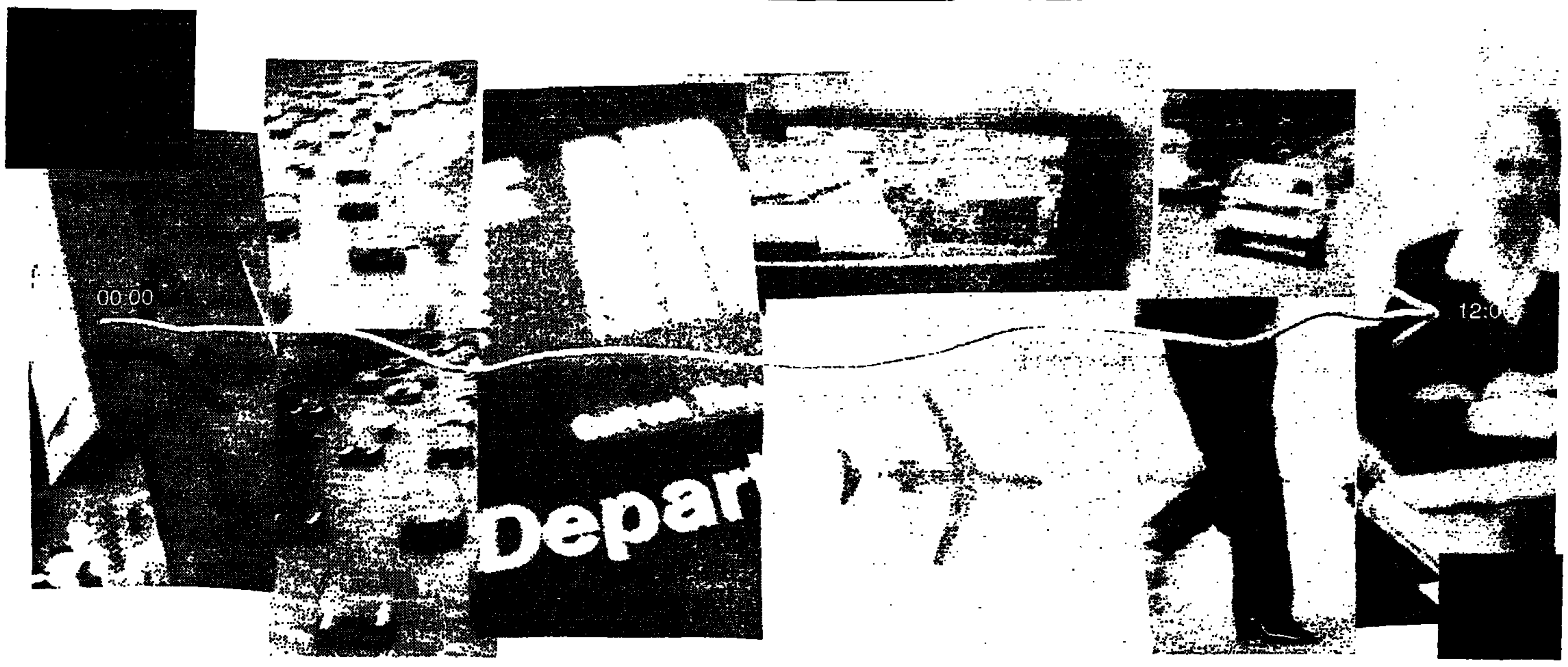
The Stikliai sounds cool. *Vilnius In Your Pocket*, the official city guide, reckons the Stikliai is lavish and luxurious, with "cushy rooms" and "very handsome hotel staff".

Another sign of the quickening pace in Vilnius is its night life. After the party at the Astorija I visited an unending number of bars, pubs, dance halls and nightclubs, including the unexciting and not at all exclusive Ekluziva, said to be the first striptease joint in Vilnius.

No, I did not visit those places. Only testing. It was sub-zero outside, and snow was falling, so I did not stray outside the Astorija.

If I *had* done so, I would have heeded the advice of *Vilnius In Your Pocket* to foreigners working in the Lithuanian capital. In the interests of safety, it recommends "storing documents and money in safekeeping facilities, carrying a *copy* of your passport on your person, avoiding any situation involving narcotics, avoiding poorly-lit streets, and exercising vigilance in crowded public areas".

Do all that, and you ought to be fine.



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